CITY OF SOUTH PASADENA
CITY COUNCIL SPECIAL MEETING AGENDA

Council Chamber
1424 Mission Street, South Pasadena, CA 91030

September 11, 2019, at 8:00 p.m.

In order to address the City Council, please complete a Public Comment Card.
Time allotted per speaker is three minutes.
No agenda item may be taken after 11:00 p.m.

CALL TO ORDER: Mayor Marina Khubesrian, M.D.

ROLL CALL: Councilmembers Michael A. Cacciotti, Diana Mahmud, and Richard D. Schneider, M.D.; Mayor Pro Tem Robert S. Joe; and Mayor Marina Khubesrian, M.D.

PLEDGE OF ALLEGIANCE: Councilmember Diana Mahmud

1. CLOSED SESSION ANNOUNCEMENTS: A Closed Session Agenda has been posted separately.

PUBLIC COMMENTS AND SUGGESTIONS
(Time limit is three minutes per person)
The City Council welcomes public input. Pursuant to Government Code Section 54954.3(a), members of the public will be provided with an opportunity to address any item described on the agenda only, at the time the matter is considered by the City Council. Members of the public may address the City Council by completing a public comment card and giving it to the Chief City Clerk prior to the meeting.

ACTION/DISCUSSION

2. <u>Receive and File a Report on Opportunities to use the California Department of Transportation Affordable Sales Program for the State Route 710 Surplus Properties to Create Affordable Housing</u>

<u>Recommendation</u>
It is recommended that the City Council receive and file a report on opportunities to use the California Department of Transportation's (Caltrans) Affordable Sales Program (ASP) for the State Route 710 (SR-710) surplus properties to create affordable housing.

ADJOURNMENT

FUTURE CITY COUNCIL MEETINGS
(OPEN SESSION)

September 18, 2019	Regular City Council Meeting	Council Chamber	7:30 p.m.
October 2, 2019	Regular City Council Meeting	Council Chamber	7:30 p.m.
October 16, 2019	Regular City Council Meeting	Council Chamber	7:30 p.m.

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ACCOMMODATIONS

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I declare under penalty of perjury that I posted this notice of agenda on the bulletin board in the courtyard of City Hall at 1414 Mission Street, South Pasadena, CA 91030, and on the City's website as required by law.

09/04/19	/S/
Date	Maria E. Ayala, MMC Chief City Clerk

City Council Agenda Report

ITEM NO. 2

DATE: September 11, 2019

FROM: Stephanie DeWolfe, City Manager

PREPARED BY: Margaret Lin, Manager of Long Range Planning and Economic Development

SUBJECT: **Receive and File a Report on Opportunities to use the California Department of Transportation Affordable Sales Program for the State Route 710 Surplus Properties to Create Affordable Housing**

Recommendation
It is recommended that the City Council receive and file a report on opportunities to use the California Department of Transportation's (Caltrans) Affordable Sales Program (ASP) for the State Route 710 (SR-710) surplus properties to create affordable housing.

Commission Review and Recommendation
This matter was not reviewed by a commission.

Executive Summary
The City contracted with Heritage Housing Partners (HHP) to conduct an evaluation of the Caltrans surplus properties to determine the feasibility of using the surplus properties for affordable housing purposes. HHP found that the ASP process is extremely cumbersome, may generate a loss in revenue, and will not guarantee the production of new affordable housing units. Because of this, HHP determined that given the City's lack of funding and housing management experience, the City should not take a lead role in the acquisition of property through the program. As an alternative the City should consider the possibility of partnering with other Caltrans approved Housing Related Entities (HREs) with the appropriate funding and expertise to acquire the surplus properties to preserve or produce affordable housing. The proposed strategy will utilize the ASP as an opportunity to provide affordable housing without requiring City resources.

Discussion/Analysis
Caltrans developed the ASP in accordance with the Senate Bill 86 (Roberti Act) to govern the priority order of sale for the surplus properties in the SR-710 corridor. The ASP outlines the following purchasing priorities:

1. Current tenant, who is the former owner
2. Current occupant of low or moderate income
3. Current occupant at not more than 150 percent of the area median income

4. Public or private HREs
5. Current tenant
6. Former tenant in good standing, in reverse order of tenancy
7. Public auction

The Caltrans surplus properties provides a unique opportunity to preserve and/or provide affordable housing. Caltrans has specified that only registered HREs that have been approved by Caltrans may submit a reasonable price statement under Priority 4: Public or Private HREs. The City is a Designated HRE and is granted a slightly higher order of priority in comparison to other public or private HREs. However, the City lacks the funding and expertise necessary to improve and maintain the properties as affordable housing. While the State provides some funding opportunities, the City is not in a competitive position to receive that funding nor does it have the staff capacity or expertise to facilitate the acquisition, construction, or maintenance of housing units.

The HHP report provides an overview of the current ASP process, explores the possibilities for a double-escrow, and includes an evaluation of the surplus properties. HHP found that the ASP process is extremely complicated and does not follow standard property acquisition practices. In addition, the lack of available information regarding existing tenants and property conditions further adds to the risk of acquiring the properties. Based on the ASP requirements a double-escrow or side-by-side escrow can only be completed between approved HREs. This provision provides the City with an opportunity to partner with other HREs to provide affordable housing. Given the high cost for rehabilitation and maintenance, HHP determined that the properties most likely to generate affordable housing units include multi-family properties. Lower density or single-family properties are less likely to generate additional affordable housing units.

HHP made the following recommendations:

1. The City should evaluate the potential use of its Designated HRE status to further support other HREs to preserve/provide affordable housing.
2. City should maintain or renew its Designated HRE status for Phase 2 of the ASP.
3. In preparation of Phase 2, the City should collaborate with other affordable housing developers to apply for HRE status
4. City should contact existing HREs to determine interest in remaining Phase I properties
5. City should advocate for Caltrans to share all available data regarding properties and tenants
6. Other parties interested in partnering with the City should develop a tenant capacity study to determine ASP eligibility

Background

In 2014, Caltrans released the Notice of Proposed Rulemaking regarding the proposed regulations for the Affordable Sales Program. The proposed regulations implement Roberti Act and governs the sale of surplus properties along the SR-710 corridor, including the 99 properties located in the City of South Pasadena. Caltrans selected Veterans Realty Group to help facilitate the sale of the 44 Phase I properties (34 properties located in the City); and the California

Housing Finance Agency has established a special mortgage product to assist lower income tenants in purchasing the properties at an affordable price.

On June 4, 2018, Caltrans offered six surplus properties to the City and other HREs for purchase. Subsequently, the City submitted letters of interest and attended the open houses for each of the properties. Caltrans requested that the HREs provide a reasonable price statement (bid) for the properties that they were interested in purchasing by July 17, 2018. Due to the lack of available funding or qualified buyers for a side-by-side escrow, the City did not submit a reasonable price statement for the properties.

During the September 19, 2018, City Council Meeting numerous Caltrans tenants provided public comments regarding concerns with the Affordable Sales Program process. Residents of Caltrans owned multi-family properties expressed concerns with the lack of notification and support regarding the sale of their properties from Caltrans. The residents requested support from the City to navigate the Affordable Sales Program and consider a double escrow process.

On October 3, 2018, the City Council established a Council Ad Hoc Committee comprised of Mayor Khubesrian and Councilmember Schneider to address issues and concerns associated with the ASP.

On December 4, 2018, the City issued a Request for Proposals to conduct an affordable housing feasibility analysis of the Caltrans surplus properties. On January 21, 2019, the City issued a Professional Services Agreement with HHP to conduct the feasibility analysis.

Legal Review
The City Attorney has reviewed this item.

Fiscal Impact
There is no immediate fiscal impact associated with this report

Public Notification of Agenda Item
The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.

Attachment: Heritage Housing Partners Final Report

City of South Pasadena

Feasibility Analysis and Recommendations for Affordable Housing and Supportive Care Opportunities at Surplus Caltrans Property

22 July 2019

Prepared by:

Heritage Housing Partners

Principal Authors:

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I. Selected Findings & Recommendations

1. Finding: The Caltrans Affordable Sales Program ("Program") is a complicated Program that operates in a manner that varies from established norms of real estate investing, property acquisition procedures, and mainstream affordable housing policy. These variances increase risks for all participants.

2. Finding: The City of South Pasadena ("City") does not have the financial capacity or expertise to directly acquire surplus residential property through the Program. Even if funding were made available, Heritage Housing Partners ("Consultant" or "HHP") recommends that the City avoid direct ownership of residential assets. Instead, partnerships between the City and experienced affordable housing developers who have Private HRE status would greatly insulate the City from typical residential development and affordable housing risks.

3. Finding: The City is a "Designated Public Housing Related Entity (HRE)" which provides the City with limited priority over other HREs in certain situations under the "Roberti Waterfall" order of priority (collectively referred to as the "order of priority"). This means that the City could use its status as a Designated HRE to work with other approved HREs to assist with the acquisition of properties for preservation or production of affordable housing.

4. Recommendation: Given the City's insufficient experience with, funding for, or operation of affordable housing, Consultant does not recommend that the City use its Designated HRE status to directly acquire property through the Program. Instead, the City might evaluate the potential use of its Designated HRE status to assist other HREs with the same.

5. Recommendation: Based on the above, Consultant recommends that City maintain / renew its "Designated Public HRE" status for Phase 2 of the Program and consider partnering with other qualified HREs to secure priority properties via dual escrow. As Designated HRE, City and its potential HRE partners will be able to acquire surplus residential property at a higher-level order of priority versus most other HREs.

6. Finding: Only HREs may purchase multifamily surplus residential properties and/or surplus single-family residential properties that are not purchased by current tenants at a higher order of priority. Tenanted multifamily properties that are not purchased by HREs may be directly for sale to tenants.

7. Finding: The use of "side-by-side escrows" or "dual-escrows" is not specifically allowed or disallowed by the Program, however, given other Program requirements and limitations, is only feasible to be used in limited situations, and only between HREs. This is because–other than direct sales by Caltrans to current tenants in good standing–only HREs are permitted to purchase surplus residential property at a priority over certain classes of current tenants and members of the public.

8. Finding: As a Designated HRE, the City could potentially use dual escrows to partner with another approved Public or Private HRE to simultaneously purchase a property via the Program. In this scenario, a dual escrow would allow the City to use its senior HRE status to "win the bid" (i.e., have its RPS selected to purchase a property) and then assign the City's right to purchase to a Private HRE, provided that the Private HRE has agreed to assume the escrow from the City and has the demonstrated capacity and experience to close (i.e., purchase) the property.

9. Finding: Another foreseeable use of a dual escrow would be to allow the Private HRE to comply with a current tenant's "first right of occupancy" per the Roberti Waterfall, when an occupied property is to be purchased by a Private HRE.

10. Finding: Phase 1 HREs have limited financial and organizational capacity. New Economics for Women (NEW) was successful in being selected for purchase of seven (7) surplus residential property in Phase 1–Round 1, however, have yet to enter escrow. The only other successful HRE was the City of Pasadena which purchased one (1) surplus residential property, and is in escrow to close in July 2019.

11. Finding: Caltrans / HCD released a Phase 1–Round 2 set of surplus residential properties to HREs as soon on 29 June 2019. The Regulations list 26 "Remaining Phase 1 Properties" in South Pasadena. Based on Caltrans' representations, any of these properties could be released to HREs as part of the Phase 1–Round 2 release. Refer to Table 1 on the next page for a list of these properties.

12. Finding: Registered HREs will receive a Request for Reasonable Price Statement (RRPS) (i.e., request for bids) from Caltrans to solicit bids (i.e., Reasonable Price Statements) for Phase 1–Round 2 surplus residential property. Caltrans has previously issued RRPS in "bundles" of up to four (4) properties in a single package. Caltrans is expected to continue to "bundle" properties to HREs via the RRPS process.

Table 1: List of Remaining Phase 1 Surplus Residential Properties Located in South Pasadena

Item #	Caltrans ID	APN	Caltrans Property Type	Property Type	Address	Tenancy	Notes
1	68463	5315-016-900	Multi-Family (Non Historic)	MFD-Plex	626 Prospect Avenue, S. Pasadena	Partially Occupied	12 units. City requested moving to Phase 2. Tenants expressed interest in purchasing.
2	45423	5310-028-900	Multi-Family (Historic)	MFD-2 on a lot	705 Bonita Drive, S. Pasadena	Partially Occupied	Tenant expressed interest in renting from HRE
3	68671	5310-020-904	Multi-Family (Non Historic)	MFD-2 on a lot	823-825 Bonita Drive, S. Pasadena	Partially Occupied	--
4	68553	5317-034-900	Single-Family (Historic)	SFD	400 Prospect Circle, S. Pasadena	Occupied	Tenant expressed interest in purchasing from HRE
5	67320	5317-036-901	Single-Family (Historic)	SFD	495 Prospect Circle, S. Pasadena	Occupied	--
6	68629	5317-036-902	Single-Family (Historic)	SFD	511 Prospect Avenue, S. Pasadena	Occupied	--
7	68626	5317-036-904	Single-Family (Historic)	SFD	529 Prospect Avenue, S. Pasadena	Occupied	Tenant expressed interest in purchasing from HRE
8	68635	5317-036-900	Single-Family (Non Historic)	SFD	530 Orange Grove Avenue, S. Pasadena	Vacant	--
9	61159	5317-036-905	Single-Family (Non Historic)	SFD	533 Prospect Avenue, S. Pasadena	Occupied	Tenant expressed interest in purchasing from HRE
10	67558	5317-036-903	Single-Family (Non Historic)	SFD	534 Orange Grove Avenue, S. Pasadena	Vacant	--
11	68509	5317-035-900	Single-Family (Non Historic)	SFD	535 Meridian Avenue, S. Pasadena	Vacant	--
12	44428	5317-035-901	Single-Family (Non Historic)	SFD	540 Prospect Avenue, S. Pasadena	Occupied	Tenant expressed interest in renting from HRE
13	68676	5310-021-902	Single-Family (Non Historic)	SFD	773 Bonita Drive, S. Pasadena	Vacant	--
14	67332	5310-021-901	Single-Family (Historic)	SFD	801 Bonita Drive, S. Pasadena	Occupied	Tenant expressed interest in renting from HRE
15	68109	5310-020-901	Single-Family (Non Historic)	SFD	808 Valley View Road, S. Pasadena	Vacant	--
16	68672	5310-020-906	Single-Family (Non Historic)	SFD	815 Bonita Drive, S. Pasadena	Occupied	Tenant expressed interest in renting from HRE
17	68213	5310-035-901	Single-Family (Historic)	SFD	816 Bonita Drive, S. Pasadena	Occupied	--
18	68670	5310-020-902	Single-Family (Non Historic)	SFD	822 Valley View Road, S. Pasadena	Vacant	--
19	68353	5314-021-900	Single-Family (Non Historic)	SFD	863 Monterey Road, S. Pasadena	Occupied	--
20	44538	5310-022-902	Single-Family (Non Historic)	SFD	885 Oneonta Drive, S. Pasadena	Occupied	Tenant expressed interest in purchasing from HRE
21	67556	5310-020-903	Single-Family (Non Historic)	SFD	901 Bonita Drive, S. Pasadena	Vacant	--
22	68232	5319-034-900	Single-Family (Non Historic)	SFD	1101 Pine Street, S. Pasadena	Occupied	Tenant expressed interest in purchasing from HRE
23	68500	5315-011-903	Single-Family (Non Historic)	SFD	1109 Grevalia Street, S. Pasadena	Occupied	In Escrow as of 3/19/19
24	67567	5310-031-903	Single-Family (Non Historic)	SFD	1707 Meridian Avenue, S. Pasadena	Occupied	Tenant expressed interest in renting from HRE
25	61345	5310-033-901	Single-Family (Historic)	SFD	1821 Meridian Avenue, S. Pasadena	Occupied	Tenant expressed interest in purchasing from HRE
26	47924	5310-018-902	Single-Family (Non Historic)	SFD	2028 Berkshire Avenue, S. Pasadena	Occupied	--

Source: 21 CCR§ 1476(ee) as updated by Notice of Emergency Rulemaking (5/13/19)

13. Finding: Caltrans intends to release +-400 Phase 2 surplus residential properties in four (4) rounds beginning in 2020. Caltrans intends to re-open Program rulemaking during Fall 2019 to complete necessary revisions temporarily adopted during recent Emergency Rulemaking procedures. Caltrans & HCD will accept and certify new HREs prior to Phase 2.

14. Finding: Consultant suggests a series of tiered priorities in support of the City's potential support or encouragement of affordable housing preservation and production via HREs. While all properties are important to preserve as affordable housing, due to their concentration of units, Consultant believes that the following multifamily properties should be evaluated as Tier I priorities:

Address	Caltrans ID	Units	Tenancy	Phase
626 Prospect Avenue	68463	12 units	Partially Occupied	Phase 1
705-711 Fairview Avenue / 1041-1043 Magnolia Street	68453	6 units	Occupied	Phase 2
1002-1008 Hope Street / 726 Meridian Avenue	68439	3 units	Partially Occupied	Phase 2

Lower density multifamily properties are encouraged to be evaluated as Tier II priorities, including all 2-on-a-lot properties. Tier III priorities are suggested to include all vacant single-family properties. In total, 24 properties (representing 51 units) are included on the tiered priority list.

15. Recommendation: To prepare for Phase 2 RRPS, Consultant suggests that all interested parties collaborate to encourage additional affordable housing developers that might serve as appropriate partners with the City to preserve affordable housing units at Tier I-III properties to apply for Private HRE status..

16. Recommendation: As there are limited qualified HREs in Phase 1, Consultant encourages the City to contact all existing approved Public and Private HREs to establish HRE interest in purchasing one or more of the "Tier I" priorities that may be available in Phase 1 – Round 2.

17. Finding: Caltrans has shared no data regarding Caltrans' characterization of current tenants' Program eligibility or disposition preferences.

18. Recommendation: Consultant recommends that the City and all interested parties advocate with Caltrans to share all available data with qualified HREs during the RRPS process, including: a) property information, including a standard home inspection report conducted by a 3rd party home inspection hired by Caltrans; and, b) tenant information, including tenant household size, gross annual income, disposition preferences and contact information.

19. Finding: No existing funding sources are directly applicable to the type of scattered site, low-density affordable housing opportunity offered by the Program. Consultant has provided an indication of funding potential for Program-related activities, with top priorities including: SB 2 Planning Grants; CalHome; HOME; and, CDBG (non-entitlement cities). All of these sources have current over the counter application windows or NOFAs scheduled in the next six months.

20. Finding: Potential re-use case studies have been identified with experienced, non-profit affordable housing developers interested in a range of Program opportunities in South Pasadena. Major challenges to the case studies include: lack of subsidy; potential deviations from City zoning standards (i.e., reduced or no parking standards; minimum unit size; density yield increases via affordable housing bonus) to support higher densities; and, scalable financing plan to efficiently fund scattered site approach.

21. Recommendation: Consultant suggests that interested parties (other than the City) collaborate on a "tenant capacity study" to assist current tenants of "Tier I-III properties" to:

a) document current tenant disposition preferences (i.e., stay as renter; stay as owner; re-locate);

b) document current tenant gross household incomes and other relevant household data in order to evaluate the likely Program eligibility of each current tenant household;

c) use results of above to establish likely rent or sales price, based on Program regulations, and the income category and disposition preference of each current tenant household;

d) conduct mortgage pre-qualification of each current tenant household that wishes to purchase their unit to determine the "readiness" of that household to successful originate a first

mortgage in support of the purchase of their unit;

e) the sum of the first mortgage amounts plus down payments resulting from "d", plus the capitalized borrowing capacity of any net rental income for current tenants who wish to remain as renters represents the value of existing purchase price that could be funded via the financial capacity of the current tenants. This information could be shared with HRE partners to assist with development of an overall financing strategy for the purchase, necessary rehabilitation and preservation of the property as affordable housing;

f) develop necessary subdivision, condo plan & HOA legal documents or other most efficient legal form of community interest development (CID) to support the separation of multifamily apartments into legally divisible units for sale.

22. Finding: Surplus residential properties purchased by HREs will be offered on an "as-is" basis by Caltrans with no warranties. Exact cost of rehabilitating properties is not known, however, Consultant has estimated typical costs of $125,000 to $215,000 based on results of windshield survey.

II. Introduction

A. Definition of Assignment & Organization of Report

The City of South Pasadena ("City") retained Heritage Housing Partners ("HHP" or "Consultant") to analyze the affordable housing potential arising from surplus residential properties located in the City that are owned by Caltrans and that are to be offered as part of the Affordable Sales Program ("Program" or "Roberti Act").

Caltrans previously acquired properties in the City in anticipation of building the SR-710 North Project ("710 Corridor") as a surface route freeway and later as a tunnel. On September 21, 2018, Caltrans issued a letter stating their intention to select the Transportation System Management/Transportation Demand Management Alterative as the Preferred Alternative for the SR-710 North Project. In anticipation of the properties becoming surplus, Caltrans established the Program in an attempt to maintain the properties as affordable housing.

The City has limited funding and resources available to assist with acquisition financing for potential surplus residential property but understands the importance of affordable housing and permanent supportive care facilities to the community. Consequently, the City has retained Consultant to explore options to take advantage of the surplus Caltrans properties to provide affordable housing and/or permanent supportive care facilities.

Consultant understands that City has registered as a Housing Related Entity ("HRE") with Caltrans in order to preserve the City's rights to be considered as a potential purchaser of "Phase 1" surplus properties.

In the following report, Consultant will present the results of this research and analysis, organized thusly:

- Section III provides a detailed review of Affordable Sales Program disposition process, including strategic considerations impacting City or HRE implementation of a local affordable housing strategy based on the Program.
- Section IV reviews available data related to the surplus residential properties, including the results of Consultant enhancements to data provided by City.
- Section V discusses potential approaches to re-use of surplus residential property based on theoretical case studies arising from discussions with non-profit affordable housing

developers Restore Neighborhoods LA (RNLA) and Affordable Living for the Aged (ALA), and also includes a case study based on HHP's experience as a developer of affordable home ownership (AHOP) projects.

- Section VI summarizes implementation considerations.

A Microsoft Excel workbook entitled `SR-710 Properties in South Pasadena_HHP Analysis.xlsx` is transmitted in electronic format and is herewith included as an integral component of Consultant's work.

B. Definition of Affordable Sales Program

The Roberti Act (California Government Code Sections 54235 through 54238.9; Appendix A; "Statutes") was adopted in 1979 and requires surplus residential properties owned by Caltrans in the 710 Corridor to be offered for sale to eligible low-income, moderate-income, and middle-income (i.e., under 150% of Area Median Income or "AMI")[1] current tenants in good standing at an Affordable Price, and for sale at Fair Market Value price to current and former tenants in good standing at or above 150% of AMI. Current AMI's are shown in Table 2, below.

Table 2: 2019 HCD State Income Limits for Los Angeles County[2]

County	Income Category	Number of Persons in Household							
		1	2	3	4	5	6	7	8
Los Angeles County	Extremely Low	21950	25050	28200	31300	33850	36350	39010	43430
	Very Low Income	36550	41800	47000	52200	56400	60600	64750	68950
Area Median Income:	Low Income	58450	66800	75150	83500	90200	96900	103550	110250
$73,100	**Median Income**	51150	58500	65800	**73100**	78950	84800	90650	96500
	Moderate Income	61400	70150	78950	87700	94700	101750	108750	115750

Source: http://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits/docs/Income-Limits-2019.pdf

The Affordable Sales Program ("Program") regulations (21 CCR§§ 1475 et. Seq; Appendix B; "Regulations") were adopted in 2016 setting forth the priorities and procedures for disposal of the surplus residential properties. Emergency regulations submitted by Caltrans on 13 May 2019 and approved by the Office of Administrative Law (OAL) on 31 May 2019 further revised the

[1] Please note that Area Median Income (AMI) is based on statistics for Los Angeles County, as adjusted for household size. Specific median incomes for the City are not relevant to this definition..

[2] Consultant has requested that Caltrans confirm the specific AMI publication that they are using with the Program. In the meantime, Consultant is utilizing the HCD version of AMI which is more conservative (i.e., produces a lower median income) than the published HUD Section 8 AMI.

Program (Appendix C; "Emergency Regulations"). Together, the above references comprise the Program.

The Program is to be implemented by the following governmental units of the State of California ("State"), serving in the following roles:

- California Department of Transportation ("Caltrans") is the "owner" of surplus residential properties and is the responsible lead agency for Program implementation;
- California Department of Housing and Community Development ("HCD") serves as consultant to Caltrans, offering expertise in affordable housing program implementation and project feasibility. HCD will assist Caltrans with review, analysis and selection of awarded RPS ("Reasonable Price Statements" or "bids") solicited from Housing Related Entities ("HRE") through the RRPS ("Request for Reasonable Price Statements" or "bid solicitation" process).
- California Transportation Commission ("CTC") will manage the "SR-710 Rehabilitation Account" established to receive the net proceeds from the sale of surplus residential property (i.e., initial sales of surplus residential properties by Caltrans).
- California Housing Finance Agency ("CalHFA") will assist the Program with origination of first trust deed home mortgage loans to qualified current tenants, and will manage the "Affordable Housing Trust Account" to be established to receive the net proceeds from subsequent market sale of surplus residential property (i.e., sales occurring after Caltrans' initial disposition of surplus residential properties).

III. "Roberti Act" Surplus Property Disposition Process

The following sections provide an overview of key provisions, requirements and processes of the Program. The Caltrans Affordable Sales Program ("Program") is a complicated Program that operates in a manner that varies from established norms of real estate investing, property acquisition procedures, and mainstream affordable housing policy.

Consultant's documentation, interpretation and analysis of the Program was derived in reliance on the following sources of information (collectively "Sources")[3], in the following priority of factual reliance:

a) codified laws of the State of California ("Statutes");

b) currently adopted regulations as published in the California Code of Regulations ("CCR" or "Regulations");

c) informational documents and websites published by governmental units of the State of California responsible with implementation of the Program ("Collaterals"); and,

d) interviews with State staff and consultants working on Program implementation ("Interviews").

Consultant reviewed the Program with other additional sources solely for purposes of identifying issues to clarify in this work product, and/or to review strategic implementations of Program implementation as documented herein based on the Sources. Where possible, Consultant has attempted to address misconceptions about the Program. Where uncertainties or conflicts arise from, or between, sources Consultant has attempted to clarify the relied upon source for the information presented.

In situations where the Program does not address a specific issue, Consultant has provided an interpretation based on a "typical" process based on other affordable rental housing program, affordable home ownership ("AHOP"), or generally accepted residential development processes.

[3] Cited section legal references is prior to adoption of Program Emergency Regulations on 31 May 2019.

A. Scope of Covered Properties

The Program is primarily oriented to administer the disposition of "surplus residential property" currently developed with single-family or multifamily housing improvements. Vacant or unimproved properties, or improved properties that are used primarily for a nonresidential purpose, are defined as "non-residential property". Disposition of non-residential property does not follow all of the Program "waterfall" priorities, except that it shall be offered to any current tenants in good standing at fair market value before being offered to any other prospective buyer under the terms of Streets and Highways Code section 118.

> **"**Multifamily Property**"** means property that consists of two or more dwelling units.[4]
>
> "Nonresidential Property" means property, whether improved or unimproved, that is used primarily for a nonresidential purpose that is fully compliant, properly permitted, and licensed under local ordinances and state licensing requirements as of the effective date of these regulations if applicable.[5]

B. The Order of Priority ("Roberti Waterfall") Process

A major tenant of the Program is the notion that surplus property shall be offered to various classes of prospective buyers in a ranked priority order. This ranked priority order has become known in common parlance as the "Roberti Waterfall". The Roberti Waterfall is illustrated at Figure 1 and described in the following sections. As shown in the graphic, the term "Order of Priority" is used by Housing and Community Development (HCD) as a synonym for "Roberti Waterfall".

Caltrans shall provide "conditional offer prior to sale" ("COPS") to each of the following classes of prospective buyer based on the order of priority.[6] If a class of prospective buyer is not available or an available class of prospective buyer declines to purchase or fails to comply with the conditions of the "conditional offer prior to sale", Caltrans shall then provide a "conditional offer prior to sale" to the prospective buyer or buyers at the next highest level of ranked priority order.

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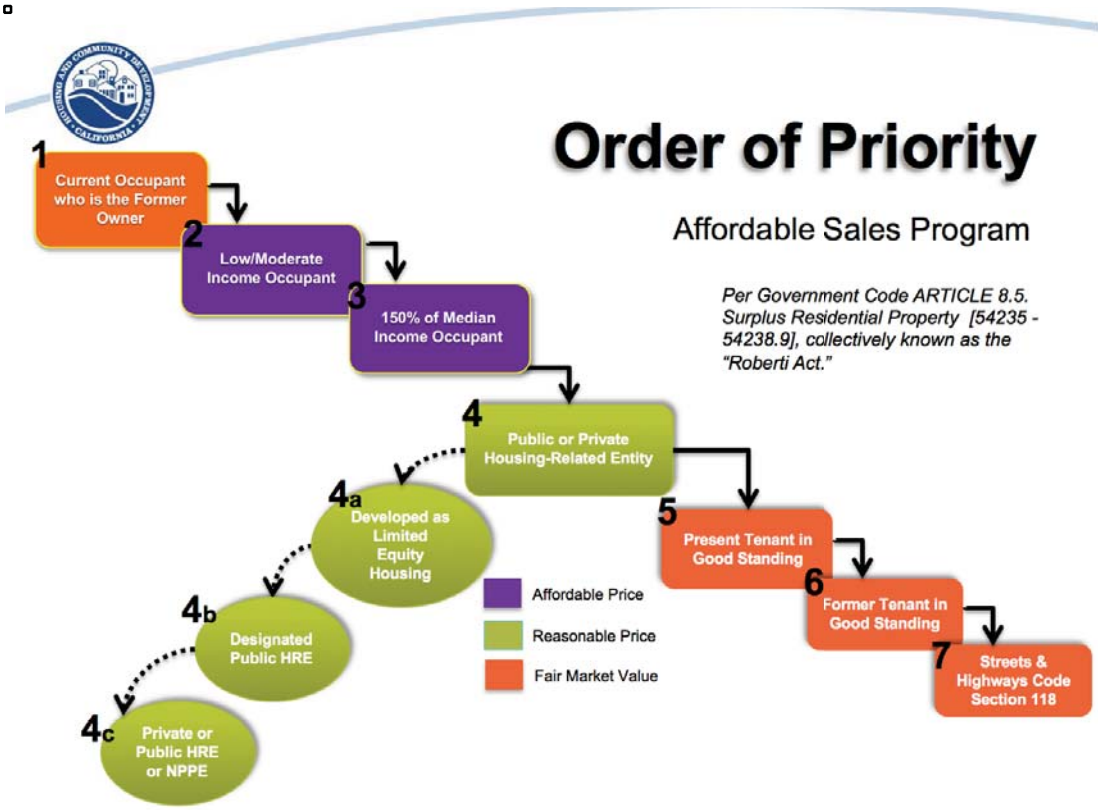
[4] 21 CCR§ 1476(v)
[5] 21 CCR§ 1476(w)
[6] The "Conditional Offer Prior to Sale" processes is described in the section entitled "III.D.1 – Sales to Single Family Tenants"

> "Conditional Offer Prior to Sale" ("COPS") means the manner in which all surplus residential property is offered for sale in accordance with this chapter.[7]

Only single-family residences can be offered in levels #1, #2, or #3 of the "order of priority" as graphically depicted in Figure 1. Current tenants in good standing who reside in a surplus multifamily residential properties shall not be offered an opportunity to purchase until level #4 of the "order of priority" process.

Purchase offers made to current tenants in good standing who reside in a multifamily property shall be made by a Housing Related Entity ("HRE") selected through the RRPS / RPS process by HCD/Caltrans as the successful bidder / purchaser of said surplus multifamily residential property.[9]

Figure 1: Illustration of the "Order of Priority" (aka "Roberti Waterfall")



[7] 21 CCR§ 1476(f)

[9] The surplus multifamily residential property sales process to HREs, including sub-offers to current multifamily residential tenants in good standing, is described in the section entitled III.D.2 – Sales to Housing Related Entities (HRE) ("Process B/B1"). The purpose and types of HREs is described in the section entitled III.B.4 – Priority #4: Housing Related Entities (HRE)

Source: HCD Presentation to Housing Related Entities (HRE) (May 07, 2019)

Please note that in the above graphic, HCD has color-coded the type of sales price to be offered to a specific class of prospective buyer at each level of the "order of priority". This graphic was issued prior to the adoption of Emergency Regulations defining "Minimum Price".

1. Priority #1: Former Property Owners

If a single-family residence is currently occupied by the former owner (i.e., the person from whom Caltrans purchased the property) who is a tenant in good standing, the property shall be offered to the former owner at fair market value.

> "Fair market value" ("FMV") means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.[10]

2. Priority #2: Low- or Moderate-Income Qualified Current Tenants

To be eligible to purchase at this level of the "Order of Priority" (Figure 1, No. 2), prospective buyers must be: (i) tenants in good standing; (ii) have occupied the surplus residential property as their principal place of residence for two years or more; (iii) are persons or families of low or moderate income; and, (iv) have not had an ownership interest in real property in the last three years as of the date as of notice from Caltrans determining their Program eligibility.[11]

> "Persons or families of low or moderate income" shall have the same meaning as set forth in Health and Safety Code section 50093. For purposes of this chapter, "persons or families of low or moderate income" also means persons or families whose income does not exceed 150 percent of the area median income adjusted for family size.[12]

"Persons and families of low or moderate income" means persons and families whose income does not exceed 120 percent of area median income, adjusted for family (i.e., household) size in accordance with adjustment factors adopted and amended from time to time by the United States Department of Housing and Urban Development pursuant to Section 8 of the United States Housing Act of 1937.

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[10] 21 CCR§ 1476(l)
[11] 21 CCR§ 1477(a)(2)
[12] 21 CCR§ 1476(y)

The Program extends this traditional definition of affordable housing by adding "Person or Family with Income Not to Exceed 150% of the Area Median Income" as an additional category of income-qualified household. No name is provided for this category; however, it is similar to what some affordable housing advocates now refer to as "middle" or "workforce" income segments. Consultant will refer to this segment as "middle-income".

> NOTE: While much of the information related to "middle-income" prospective buyers is the same as that for low- and moderate-income buyers, the purchase priority for middle-income buyers is lower, occurring at step #3 of the "Roberti Waterfall. Middle-income buyers are discussed in the next section.

For purposes of the Program, the referenced household income ranges have the meanings as shown in Table 3, below.

Table 3: Definition of Eligible Income Ranges Eligible for Affordable Price & Affordable Housing Cost

Category	% of Area Median Income (AMI), Adjusted for Household Size[13]	Maximum "Affordable Housing Cost" as % of Gross Household Income[14]	Required Length of Current Caltrans Tenancy	"Order of Priority"
Low Income Person or Family	Less than or equal to 80% of AMI	Not less than 28% and not more that 35% of Gross Household Income	2 years	#2
Moderate Income Person or Family	Greater than 80% and less than or equal to 120% of AMI	Not less than 28% and not more that 35% of Gross Household Income	2 years	#2
Middle Income[15] Person or Family	Greater than 120% and less than 150% of AMI	Not less than 28% and not more that 35% of Gross Household Income	5 years	#3

[13] California Health and Safety Code, section 50093. As used in this section, "area median income" means the median family income of a geographic area of the state, as annually estimated by the United States Department of Housing and Urban Development pursuant to Section 8 of the United States Housing Act of 1937. The California Department of Housing and Community Development (HCD) adapts the HUD Section 8 income statistics and issues an "Official State Income Limits" each year. See also: http://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits.shtml

[14] 21 CCR§ 1476(a)

[15] "Middle income" is a term-of-art proposed by Consultant for this "unnamed" category in the Program.

When two or more respondents at the same "order of priority" have equal eligibility for a particular surplus residential property, each respondent's relative priority for purchasing the surplus residential property will be ranked according to the postmarked date of the acceptance of the Conditional Offer Prior to Sale.[16]

The Conditional Offer Prior to Sale will provide the current low- or moderate-income tenant with two prices: a) Fair Market Value Price; and b) Affordable Price. The current tenant (prospective buyer) may accept either price, however, if the Affordable Price is selected, the Program places the burden on the current tenant (prospective buyer) to prove that they meet the eligibility requirements listed at the outset of this section. Caltrans retained "Veterans Realty Group" of Corona, California to serve as a consultant resource to advise and assist current tenants in their organization and submission of necessary documentation in support of validating their Program eligibility.

> NOTE: Refer to the section "III.D.1 – Sales to Single Family Tenants" for further discussion on offer, eligibility and sales contracting processes.

The Affordable Sales Price to be offered is based on a calculation that imputes or "backs into" a price that is affordable to the prospective buyer based on a total annual housing cost that is a reasonable share of the buyer's gross household income.

> NOTE: Refer to the section "III.C – The Pricing Process" for further discussion on how prices are set.

3. Priority #3: Middle-Income (150% of AMI) Qualified Current Tenants

To be eligible to purchase at this level of the "Order of Priority" (Figure 1, No. 3), prospective buyers must be: (i) tenants in good standing; (ii) have occupied the surplus residential property as their principal place of residence five years or more; (iii) have household gross income that is above low or moderate income but does not exceed 150 percent of the area median income; and, (iv) have not had an ownership interest in real property in the last three years as of the date as of notice from Caltrans determining their Program eligibility.[17]

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[16] 21 CCR§ 1485(b)
[17] 21 CCR§ 1477(a)(3)

As shown above in Table 3, these requirements are similar to those for prospective low- and moderate-income buyers, with the following differences:

- Middle-income tenants are required to have been a Caltrans tenant for 5 years versus 2 years for low- and moderate-income tenants; and,
- Middle-income tenants may have gross household incomes up to 150% of area median income.

The Conditional Offer Prior to Sale will provide the current "middle-income" tenant with two prices: a) Fair Market Value Price; and b) Affordable Price. The current tenant (prospective buyer) may accept either price, however, if the Affordable Price is selected, the Program places the burden on the current tenant (prospective buyer) to prove that they meet the eligibility requirements listed at the outset of this section.

> NOTE: Refer to the section "III.D.1 – Sales to Single Family Tenants" for further discussion on offer, eligibility and sales contracting processes.

The Affordable Sales Price to be offered is based on a calculation that imputes or "backs into" a price that is affordable to the prospective buyer based on a total annual housing cost that is a reasonable share of the buyer's gross household income.

> NOTE: Refer to the section "III.C – The Pricing Process" for further discussion on how prices are set.

4. Priority #4: Housing Related Entities (HRE)

Surplus single-family residences that are not sold through the above levels of the "order of priority" and ALL surplus multifamily residential properties shall be offered at a "reasonable price" to Housing Related Entities (HRE) for possible purchase.

> "Reasonable price" means the price which is best suited to the economically feasible use of the property as decent, safe, and sanitary housing at affordable rents and affordable prices established by the entity in accordance with section 1478(c).[18]

Three (3) types of HRE are defined in the Program:

[18] 21 CCR§ 1476(bb)

a) "Designated Housing-related Public Entity" ("Designated HRE") means a housing-related public entity designated by the legislative body of the city in which a surplus residential property is located. Such designation shall be made by the legislative body pursuant to resolution and sent to the Department within the time frames set forth in the Program.[19]

b) "Housing-related Public Entity" ("Public HRE") means any county, city, city and county, the duly constituted governing body of an Indian reservation or Rancheria, or housing authority organized pursuant to the Health and Safety Code, division 24, part 2, chapter 1, and also includes any state agency, public district or other political subdivision of the state, and any instrumentality thereof, which is authorized to engage in or assist in the development or operation of housing for persons or families of low or moderate income. Housing-related public entity also includes two or more housing-related public entities acting jointly.[20]

c) "Housing-related Private Entity" ("Private HRE") means any individual, joint venture, partnership, limited partnership, trust, corporation, cooperative, or other legal entity, or any combination thereof, approved by the Department as qualified to either own, construct, acquire, or rehabilitate a housing development, or a residential structure other than an owner-occupied single unit whether for profit, non-profit, or limited profit.[21]

> NOTE: In the above HRE definitions, Consultant has proposed the simplified HRE names indicated parenthetically and will reference these simplified HRE names in the text.
>
> NOTE: The Program regulations were revised in November 2017 to add 21 CCR §1478.1 which further requires that surplus residential properties that are designated historic structures "must be offered to a nonprofit private entity dedicated to rehabilitating and maintaining the historic home for public and community access and use at the same time and under the same conditions and restrictions at the entities identified in section 1477(a)(4)(iii)." This revision effectively creates another type of HRE with a higher order of priority when bidding on purchase of historic structures.

As depicted in Figure 1, No. 4, HCD indicates that sub-priorities (i.e., 4a, 4b & 4c) are to be

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[19] 21 CCR§ 1476(g) Consultant has not located in Sources and specific reference to timeframes or criteria related to the selection or approval of HREs.
[20] 21 CCR§ 1476(s)
[21] 21 CCR§ 1476(r)

expected when evaluating multiple HRE purchase offers under this level of the "Roberti Waterfall". These sub-priorities are:

4a. The Program gives purchase priority above all other HRE proposals to any HRE that proposes to purchase a surplus residential property with the intention "to cause the surplus residential property to be rehabilitated and developed as a *limited equity housing cooperative* or cooperatives in accordance with Civil Code section 817, with first right of occupancy to current tenants."[22]

4b. If no HRE proposes to pursue development of a *limited equity housing cooperative,* then purchase offers from the Designated HRE would be considered above all other HRE purchase offers.

4c. Finally, if no HRE purchase offers meet the above requirements, then all other Public HRE and Private HRE purchase offers would be evaluated on an equal basis.

In all cases, when an HRE purchases a property at a "reasonable price" the HRE must offer a "first right of occupancy" to the current tenants. This "first right of occupancy" in favor of the current tenant represents a further sub-priority to the "order of priority," further complicating an HRE's analysis of possible outcomes when preparing a purchase offer (RPS or bid).

The details of what this "first right of occupancy" entails vary based on whether or not the HRE intends to develop the property as a "limited equity housing cooperative", as shown in Table 4.

Table 4: Definition of HRE Current Tenant "First Right of Occupancy" Requirements

Ownership Model	Offer A: Form of "First Right of Occupancy" HRE is Required to Offer to Current Tenant	Offer B: Outcome If Current Tenant Refuses HRE Offer
Scenario 1: Limited Equity Housing Cooperative[23]	Current Tenant must be offered affordable rents or affordable prices to remain as a tenant or equity member in the proposed limited equity housing cooperative. If tenant's income exceeds 150% AMI, a	Current Tenant(s) may remain at affordable rent to be set by HRE as part of the limited equity housing cooperative regime.

[22] 21 CCR§ 1477(4)(i)
[23] 21 CCR§ 1478(c)(1)

	fair market rent or equity member shares shall be negotiated between HRE and tenant.	
Scenario 2: Non-Limited Equity Housing Cooperative[24]	Current Tenant(s) who intend to be owner occupants must be offered the opportunity to purchase entire surplus residential property at fair market value within the same timeframes provided to the HRE.	Current Tenant(s) who are qualified low-, moderate, or middle-income households may remain as tenants at an affordable rent. Current Tenant(s) whose income is above 150% of AMI may remain as tenants at a fair market rent.

As indicated in Table 4, if a current tenant refuses the HRE's offered initial "first right of occupancy" (Offer A) the Program suggests that the only remaining outcome for the current tenant would be to rent the unit a price set by the HRE (Offer B). While not explicitly documented in the Program, it is likely that alternative outcomes are possible.

For example, in Table 4 – Scenario 2, it is foreseeable that a current tenant may not wish to purchase the entire property at fair market value, but may wish to remain in a multifamily residential property and purchase their individual unit if an HRE were to propose a feasible affordable homeownership program (AHOP) structure for the property. The HRE could offer the remaining tenant a Program-compliant purchase price based on whether the remaining tenant was a low-, moderate-, or middle-income household, or a negotiated fair market value price if the household was not an income-qualified household.

However, current tenants that refuse both the HRE's Offer A or Offer B as outlined in the above table may face eviction. In this scenario, current tenants would be offered relocation benefits as outlined in Program Statutes at Government Code 54238.3. Caltrans has clarified the following points regarding any potential evictions:[25]

- HREs are responsible for negotiating a Program-compliant rent with all current and future tenants.
- If there is a rent or other occupancy-related dispute between HRE and a current tenant of a unit to be acquired by the HRE, the HRE is responsible for evicting the current tenant.
- Caltrans will not delay close of escrow to resolve HRE disputes with current tenants or to perfect an eviction.
- Caltrans will pay for relocation benefits compliant with Government Code 54238.3 for any tenant displaced within 90 days of property close of escrow with the HRE.

[24] 21 CCR§ 1478(c)(2)
[25] Email received 11 June 2019 from HCD staff member Steven Marshall responding to Consultant questions.

In situations where evictions are required, HREs will not have legal standing to begin eviction procedures until after close of escrow (i.e., HRE is the legal owner of the property). Once the HRE owns the property, the HRE will be hard pressed to complete an eviction within 90 days. If the eviction takes longer than 90 days, Caltrans will not be responsible for payment of relocation benefits, however, it is likely that the evicted tenant will still be eligible for relocation benefits. In such cases, it is likely that the HRE will be responsible for paying the relocation benefits to the evicted tenant.

5. Priority #5: Non-Income Qualified Current Tenants

Any surplus residential properties not sold pursuant to sections (1) to (4), above, shall then be sold at fair market value to current tenants in good standing who intend to be owner occupants. This category of current tenants includes those current tenants with gross household incomes at or above 150% of area median income.

6. Priority #6: Former Tenants

Any surplus residential properties not sold pursuant to sections (1) to (5), above, shall then be sold at fair market value to former tenants in good standing who intend to be owner occupants. Priority will be given to the most recent tenants.

7. Priority #7: General Public

Remaining surplus residential properties will then be sold at public auction pursuant to sales regulations as per Streets and Highways Code section 118. Preference will be given to the highest responsive bidder who will be an owner occupant.

C. The Pricing Process

Surplus residential properties sold through the Program may be offered at several different prices. The same property may have multiple valid sale prices depending on to whom the property is being offered for sale and at what point in the "order of priority" process. The following sections define how Program prices are set and when such prices may be offered.

1. Fair Market Value Price

Fair Market Value (FMV) price is set be Caltrans based on an appraisal conducted by a licensed appraiser which assumes a sale to a disinterested 3rd party buyer on the open market.

> "Fair market value" means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.[26]

In preparation for the December 2016 Phase 1 release[27] of "Conditional Offers Prior to Sale", to forty-two (42) single family current tenants, Caltrans completed appraisals and set Fair Market Value prices for all Phase 1 properties. Status of Phase 2 appraisals is not known. Caltrans has not released a comprehensive list of Phase 1 Fair Market Value prices, however, some Phase 1 Fair Market Value prices are known based on review of offers released to current tenants and/or released Request for Reasonable Price Statement (RRPS) documents.

Current tenants may elect to buy their surplus residential property at Fair Market Value price at the following points and from the following sellers:

- Single-family current tenant in good standing that is former owner or income-qualified household -- from Caltrans at steps #1, #2 or #3 of the "order of priority"
- Single-family current tenant in good standing -- from HRE at steps #4b of #4c as part of the required HRE's offered "first right of occupancy"
- Multifamily current tenant in good standing -- from HRE at steps #4b of #4c as part of the required HRE's offered "first right of occupancy"
- Single-family current or former tenants in good standing -- from Caltrans at steps #5 or #6

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[26] 21 CCR§ 1476(l)

[27] Caltrans "News Release" (19 December 2016) states: "The California Department of Transportation (Caltrans) began the first step in selling 42 surplus residential properties among 460 parcels currently owned by Caltrans along the proposed State Route 710 Corridor. The notices of conditional offers were mailed on Friday, December 16 to the current occupants of the 42 residential properties that will be sold in accordance with the Affordable Sales Program regulations."

Properties sold at the Fair Market Value price do not require any Program-related covenants such as resale, equity-share or appreciation-share restrictions.[28]

For buyers who buy at another price (see following sections), the Fair Market Value price is important because it is a required variable in determining "equity share" and "appreciation share" in the "Declaration of Covenants, Conditions and Restrictions" (CCRs).

2. Affordable Price

The Affordable Price is available to current tenants in good standing who: a) are income-qualified households with gross household incomes less than 150 percent of AMI; b) are qualified first-time homebuyers; and, c) meet other eligibility requirements of the Program. The Affordable Price is the sales price that results in an appropriate, Program-compliant Affordable Housing Cost for the current tenant household.

> "Affordable price" means the maximum price at which the housing cost to be paid by the prospective buyer would not exceed the affordable housing costs for such buyers while applying the market interest rate over a fully amortized 30-year term. In the case of a buyer that is a lower income household, the price for residential property shall not be greater than the amount that would result in the buyer's monthly payments exceeding that portion of the buyer's household adjusted income, as determined in accordance with the regulations of the United States Department of Housing and Urban Development issued pursuant to Section 8 of the United States Housing Act of 1937. The affordable price shall not be less than the price paid by the agency for original acquisition, unless the acquisition price was greater than the current fair market value, and shall not be greater than fair market value.[29]
>
> "Affordable housing cost" shall have the same definitions as set forth in Health and Safety Code section 50052.5. For purposes of this chapter, for households whose gross income is above low or moderate income but does not exceed 150 percent of the area median income, affordable housing cost shall not be less than 28 percent of the gross income of the household, nor exceed the product of 35 percent times 150 percent of area median income adjusted for family size appropriate for the unit in accordance with Health and Safety Code section 50052.5(b)(4).[30]

a) Step 1: Determine Appropriate Source of AMI and Eligible Income Ranges

The Program defines Area Median Income (AMI) at 21 CCR 1476 (d) and this definition further references California Health and Safety Code, section 50093. As used in this section, "area median income" means the median family income of a geographic area of the state, as annually

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[28] See also: "III.E – Limitations on Initial & Resale Transactions (CC&Rs)"
[29] 21 CCR 1476(b)
[30] 21 CCR 1476(a)

estimated by the United States Department of Housing and Urban Development (HUD) pursuant to Section 8 of the United States Housing Act of 1937. HCD adapts these HUD Section 8 income statistics and issues an "Official State Income Limits" each year (see: Table 5).

Table 5: 2019 HCD State Income Limits for Los Angeles County[31]

County	Income Category	Number of Persons in Household							
		1	2	3	4	5	6	7	8
Los Angeles County	Extremely Low	21950	25050	28200	31300	33850	36350	39010	43430
	Very Low Income	36550	41800	47000	52200	56400	60600	64750	68950
Area Median Income:	Low Income	58450	66800	75150	83500	90200	96900	103550	110250
$73,100	**Median Income**	51150	58500	65800	**73100**	78950	84800	90650	96500
	Moderate Income	61400	70150	78950	87700	94700	101750	108750	115750

Source: http://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits/docs/Income-Limits-2019.pdf

b) Step 2: Determine Applicable Total Affordable Housing Cost as Share of Income

This reference to Health and Safety Code section 50052.5 contains the specific assumptions for determining affordable housing cost as a share of gross household income for each qualified income group, and is summarized in Table 6 below.

Table 6: Affordable Housing Cost Assumptions

Income Category	Qualifying Household Income, Adjusted for Size	CURRENT TENANT Affordable Housing Costs as % of Household Income	SALE OF VACANT UNIT AS AHOP Affordable Housing Costs as % of Household Income
Low Income Person or Family	Less than or equal to 80% of AMI	25% of Actual Current Tenant Gross Household Income	30% of 70% of AMI[32]
Moderate Income Person or Family	Greater than 80% and less than or equal to 120% of AMI	30% of Actual Current Tenant Gross Household Income	28% to 35% of 110% of AMI

[31] Consultant has requested that Caltrans confirm the specific AMI publication that they are using with the Program. In the meantime, Consultant is utilizing the HCD version of AMI which is more conservative (i.e., produces a lower median income) than the published HUD Section 8 AMI.

[32] Lower income households with household incomes above 70% of AMI, may have an Affordable Price calculated based on an Affordable Housing Cost that is equal to 30% of their actual gross household income. Health and Safety Code section 50052.5(b)(3).

Income Category	Qualifying Household Income, Adjusted for Size	CURRENT TENANT Affordable Housing Costs as % of Household Income	SALE OF VACANT UNIT AS AHOP Affordable Housing Costs as % of Household Income
Middle Income Person or Family	Greater than 120% and less than 150% of AMI	30% of Actual Current Tenant Gross Household Income	28% to 35% of 150% of AMI[33]

The Program appears to be calculating Affordable Price for current tenants in a manner that does not strictly adhere to the referenced Health and Safety Code section 50052.5. In Table 6, the affordable housing cost assumptions for "current tenant" is based on written Q&A responses provided to current tenants by Caltrans. The column labeled "sale of vacant unit as AHOP" is based strictly on Health and Safety Code section 50052.5 language. Consultant's experience as an affordable homeownership developer indicates that this latter column is more typical of the standard AHOP approach used to set an affordable price. The difference is noted here in order to provide potential clarity for future HRE analysis when responding to RRPS.

c) Step 3: Determine Non-P&I Components of Affordable Housing Cost

Monthly and/or annual housing costs other than mortgage principal and interest ("P&I") must first be estimated. The Program defines the components of housing costs via reference to 25 CCR § 6920, which includes:

- Property taxes and assessments.
- Fire and casualty insurance covering replacement value of property improvements.
- Property maintenance and repairs.
- A reasonable allowance for utilities, including garbage collection, sewer, water, electricity, gas, and other heating, cooking, and refrigeration fuels. Utilities does not include telephone service. Such an allowance shall take into consideration the cost of an adequate level of service.
- Homeowners association fees

[33] As the allowable Affordable Housing Cost for middle-income households is expressed as a range, HREs may select any point in this range to use when calculating the Affordable Housing Cost that will drive the Affordable Price.

The above costs are then averaged to a total monthly amount, and subtracted from the total maximum monthly housing costs permitted, with the net remainder being the amount that may be used to pay monthly principal and interest ("P&I") costs of a mortgage.

d) Step 4: Capital P&I Costs and Apply a Down Payment

This monthly P&I cost (i.e., "debt service") can be capitalized at the appropriate current CalHFA 30-year mortgage rate to calculate the size of loan that this debt service payment can support (i.e., "supportable mortgage"). A small additional 3% to 5% assumed down payment would typically be added to this supportable mortgage amount to derive the Affordable Price.[34] An example is provided at Table 7.

[34] The Program does not make any reference to a required down payment. The indicated amounts are typical of other AHOP programs.

Table 7: Example of Affordable Price Calculation

	Low Income *under 80% AMI*	**Moderate Income** *80% to 120% AMI*	**Middle Income** *120% to 150% AMI*
I. Assumptions			
AMI for 3-person Houshold (HCD 2019; LA County)	$65,800	$65,800	$65,800
Monthly HOA Fees	$250	$250	$250
Monthly Utility Allowance	$130	$130	$130
Property Tax Rate as a % of Affordable Price	1.15%	1.15%	1.15%
Property Tax Exemption	$7,000	$7,000	$7,000
Interest Rate (30-year fixed rate mortgage)	4.50%	4.50%	4.50%
Down Payment as a % of Affordable Price	5.00%	5.00%	5.00%
II. Income-Qualified Affordable Price Calculations			
A. Maximum Affordable Housing Cost			
Target Household Income for Pricing Purposes as % of AMI, Adjusted for Income Level	70%	110%	150%
Maximum Housing Costs as a % of Target Houshold Income	25%	30%	35%
Affordable Housing Costs	$11,515	$21,714	$34,545
B. Annual "non-P&I" Housing Costs			
HOA Fees	$3,000	$3,000	$3,000
Hazard Insurance	included in HOA	included in HOA	included in HOA
Utility Allowance	$1,560	$1,560	$1,560
Property Taxes	$1,088	$2,781	$4,911
Total Annual "Non-P&I" Housing Costs	**$5,648**	**$7,341**	**$9,471**
C. Annual Housing Costs Available to Pay "P&I"	**$5,867**	**$14,373**	**$25,074**
D. Supportable Mortgage Loan Amount	**$96,499**	**$236,389**	**$412,379**
E. Down Payment	**$4,825**	**$11,819**	**$20,619**
F. Affordable Sales Price	**$101,324**	**$248,208**	**$432,998**

3. Reasonable Price

The Reasonable Price is only applicable to HREs when they submit RPS (i.e, "bids") in response to RRPS (request for bids). The Reasonable Price is the price at which the HRE's proposed re-use proposal of the offered surplus residential property is economically feasible. HREs are responsible for developing a Reasonable Price based on the HRE's analysis of the purchase opportunity. The Reasonable Price cannot be less than Caltrans' indicated Minimum Price for a property, or bundle of, properties.

> "Reasonable price" means the price which is best suited to the economically feasible use of the property as decent, safe, and sanitary housing at affordable rents and affordable prices established by the entity in accordance with section 1478(c).[35]

4. Minimum Price

On 31 May 2019, Caltrans received emergency rulemaking (see Appendix C) approval to revise the Program regulations to introduce a new type of price: "Minimum Price". Minimum Price is the original acquisition price paid by Caltrans inflated to today's dollars by applying the California CPI.

The Minimum Price is a new "floor price" for sale of all surplus residential property. As mentioned in the second sentence of the following definition from the Regulations, neither the Affordable Price nor the Reasonable Price may be lower than the Minimum Price.

> "Minimum Sales Price" means the result of this calculation: APorig x (CPlcy / CPlpy). If the current fair market value is less than the minimum sales price, then the minimum sales price shall be the current fair market value. Neither an affordable price nor a reasonable price shall be less than the minimum sales price for Remaining Phase 1 Properties. (emphasis added)
>
> (1) The California Department of Industrial Relations publishes the California Consumer Price Index (C-CPI) with values starting in 1955.
>
> (2) APorig means the price the Department paid to acquire the property.
>
> (3) CPlcy means the most recently published annual C-CPI value for All Urban Consumers as of the last day of the 120-day term of the Conditional Offer Prior to Sale.
>
> (4) CPIPy means the annual C-CPI value for All Urban Consumers for the year when the Department most recently recorded title for the property. Any property acquired before 1955 shall use the 1955 value.[36]

As shown in Appendix E, the Minimum Price is utilized in the issuance of RRPS to HREs. Consultant has not inspected any updated "conditional offer to sale" documents since the approval of the Minimum Price definition, so it is not possible to know whether or not the Minimum Price will be used when offering surplus residential property to current tenants. However, since the Minimum Price definition indicates that the Affordable Price cannot be lower

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[35] 21 CCR 1476(bb)
[36] 21 CCR 1476(u), approved 31 May 2019.

than the Minimum Price, it is logical to presume that the new Minimum Price concept will be applicable to future conditional offers presented to current tenants.[37]

D. The Offer & Purchase Process

The offer and sale process varies depending on the type of potential purchaser and when they are buying during the "order of priority". Table 8 indicates the name of the offer and purchase process for each type of buyer and when that process is available.

Table 8: Type of Offer & Purchase Processes, by Potential Target Buyer & Order of Priority

Name of Offer & Purchase Process	Tenant Applicability	Potential Target Buyer(s)	Utilized at "Orders of Priority"	Types of Prices Offered
A. "Conditional Offer Prior to Sale" (COPS) Process[38]	Single-Family tenants with household incomes <150% AMI	Current Tenants of Single Family Residences	#2 or #3	a) Fair Market Value (FMV) Price b) Affordable Price c) Minimum Price[39]
B. "Request for Reasonable Purchase Price Statement" (RRPS) Process[40]	None. (See discussion of RRPS Sub-process)	Housing Related Entities (HRE)	#4	a) Reasonable Price b) Minimum Price[41]
B1. RRPS Sub-Process to perfect Current Tenants' "First Right of Occupancy"[42]	a) Multi-Family tenants via HRE Process b) Single Family tenants who decline earlier offers, wish to participate in a Limited Equity Coop or wish to rent, via HRE	Any tenant residing in surplus residential property to be acquired by HRE.	#4	a) Fair Market Value (FMV) Price b) Co-op Share Price[43] c) Affordable Sale Price[44]

[37] Applicability of Minimum Price to the current tenants is a meaningful change, as the new definition could be read to supersede prior "floor price" tests for the Affordable Price. 21 CCR 1476(b) indicates that the Affordable Price cannot be less than Caltrans' original acquisition price. However, as the new Minimum Price definition requires that the Affordable Price cannot be less than the Minimum Price, it appears that the floor price for the Affordable Price has been increased. In this new scenario, a current tenant (i.e., prospective buyer) would be required to pay the greater of the Affordable or Minimum Price, seemingly, regardless of the impact that price might have on their affordable housing costs as a share of household income.
[38] 21 CCR §§1479 to 1487
[39] Applicability of "Minimum Price" during the COPS process is not certain, but the revised Regulations suggest that it may be applied as a new "floor price" test. See prior footnote 37 for discussion.
[40] 21 CCR §1477(a)(4)
[41] Based on review of DRAFT RRPS example distributed at HCD workshop for HREs, 8 May 2019.
[42] 21 CCR §1478(c)
[43] Consultant's interpretive name for process suggested at 21 CCR §1478(c)(1)
[44] Regulations do specifically state that an Affordable Price is to be offered via this sub-process, however, Caltrans staff person Carolyn Dabney acknowledged in response to Consultant questions at the May 2019 HCD workshop for HREs that an HRE proposal that created AHOP purchase opportunities (i.e., opportunities to purchase that did not

Name of Offer & Purchase Process	Tenant Applicability	Potential Target Buyer(s)	Utilized at "Orders of Priority"	Types of Prices Offered
C. "Fair Market Value" (FMV) Sale Process[45]	a) Current Single-Family tenant who is prior owner b) Current Single-Family tenants with household incomes >=150% AMI c) Former Single-Family tenants	a) Current Single-Family tenant who is prior owner b) Current Single-Family tenants with household incomes >=150% AMI c) Former Single-Family tenants	#1 #5 #6	Fair Market Value (FMV) Price
D. "Section 118" Process[46]	None	Any buyer, with priority to owner occupants	#7	Price as per SHC §118.

As labeled in Table 8 processes "A", "B/B1" and "C" are discussed in the following sections. Process D is not unique to the Program and is not discussed in further detail.

1. Sales to Single Family Tenants ("Process A")

a) Data Collection Process Prior to "Conditional Offer Prior to Sale"

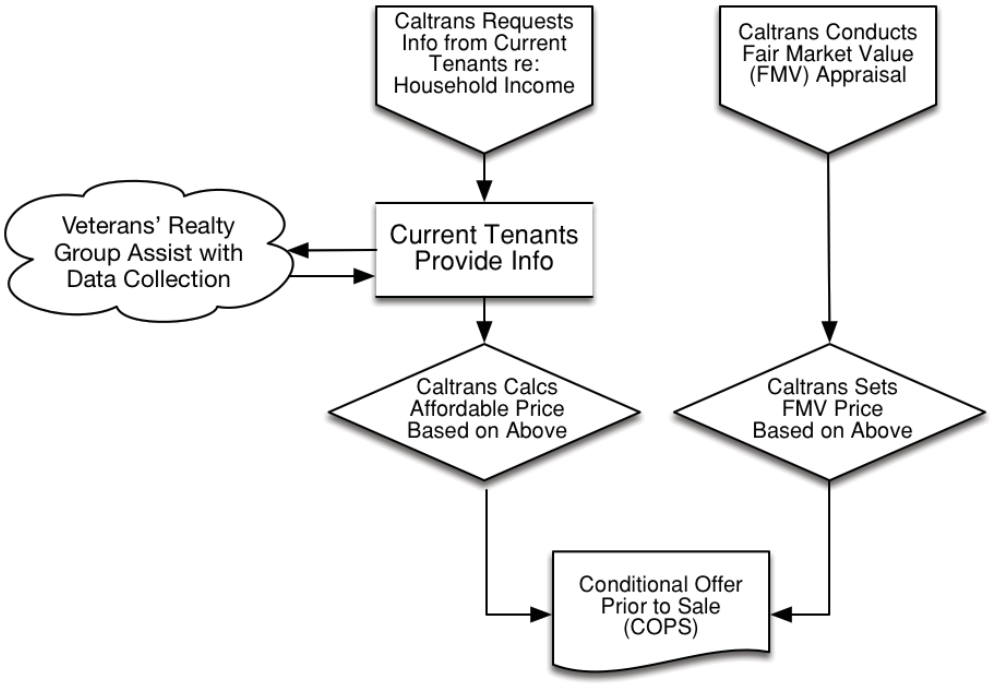
In preparation for Caltrans mailing of "Conditional Offers Prior to Sale" ("COPS") to current tenants of Phase 1 surplus single-family residential properties, Caltrans collected data from current tenants to assist Caltrans in determining, and then setting, the appropriate price(s) to be offered to each tenant for each property. (See Figure 2.) It is unclear whether the same process will be utilized for Phase 2 sales.

involve creation of a limited equity co-op) for existing income qualified multi-family residential tenants would be in the "spirit of the Regulations".

[45] 21 CCR §1477(a)(5)

[46] 21 CCR §1477(a)(5)

Figure 2: Data Gathering Procedures Prior to Issuance of Phase 1 "Conditional Offer Prior to Sale" to Current Tenants of Surplus Single-Family Residential Properties



b) The "Conditional Offer Prior to Sale" (COPS) Process

The COPS will identify a Fair Market Value (FMV) Price and an Affordable Price. Current tenants have 120 days to notify Caltrans of the tenant's "acceptance of the COPS" via certified, return receipt mail. If the current tenant accepts the FMV price, no further documentation is required and the current tenant (now a "potential purchaser") may proceed to execution of a Contract for Sale and close escrow.

However, if the current tenant wishes to accept the Affordable Price, the current tenant must also include necessary Program-mandated documentation to substantiate that they are eligible to receive the Affordable Price.

Required supporting documentation must be initially submitted within 120 days of receiving the COPS.[47] The burden is on the current tenant (i.e., prospective buyer) to doument eligibility for purchase at an affordable price. If Caltrans requires the potential buyer to provide clarifications to submitted information or to provide additional new information to substantiate Program

[47] 21 CCR §1482. Veteran's Realty Group was retained by Caltrans to assist tenants with the organization of the required documentation.

eligibility to purchase at an Affordable price, the potential buyer may receive up to 250 days from the date of the receipt of the COPS to perfect Program eligibility.

Potential buyers who are deemed Program eligible by Caltrans will receive a "Contract for Sale" (Residential Purchase Agreement, or "COPS RPA") and have 30 days from receipt of the COPS RPA to execute it and return it to Caltrans.

Buyers purchasing at an Affordable price are eligible for the following seller-paid concessions from Caltrans:

- Seller shall pay up to $3000 if Buyer wishes to retain a real estate agent or attorney licensed by the State of California to advise Buyer; and,
- Seller shall cover customary closing costs of BOTH Buyer and Seller.

Buyer must close escrow on the purchase with 150 days of executing COPS RPA (i.e., 120 days, plus 30-day extension at the discretion of Caltrans).

Table 9 summarizes the schedule of performance for a potential buyer choosing to execute a COPS at an affordable price.

Table 9: Potential Buyer Schedule of Performance for COPS Sales at Affordable Price

Process Step	Day	Deadline
Receive COPS	Day 0	n/a
Accept COPS & Return to Caltrans	Day 30	Within 30 Days of receipt of COPS
Initial Submittal of Documentation of Program Eligibility to Caltrans	Day 30	Within 30 Days of receipt of COPS
Receive Caltrans Notice of Incomplete or Insufficient Documentation of Program Eligibility ("Incomplete Notice")	Day 60	Within 30 Days of Acceptance of COPS & Initial Submittal of Documentation
Respond to Caltrans Incomplete Notice with Necessary Documentation	Day 120	Within 60 Days of Receipt of Incomplete Notice from Caltrans
Submit Final Program Eligibility Documentation	Day 250	Within 250 Days of receipt of COPS

Process Step	Day	Deadline
Final Determination of Program Eligibility from Caltrans	Day 310	Within 60 Days of submittal of Final Documentation
Receive Contract for Sale (COPS RPA)	Day 370	Estimated to be within 60 days of Positive Determination of Program Eligibility
Execute COPS RPA	Day 400	Within 30 days of receipt of COPS RPA
Close Escrow	Day 520 to 550	Within 120 days of executed COPS RPA + potential 30-day extension

2. Sales to Housing Related Entities (HRE) ("Process B/B1")

Housing Related Entities (HRE) are public and private entities whose primary purpose is the acquisition, development or operations of housing.[48] HREs are offered the opportunity to bid on and, if selected, to purchase surplus residential property through the Program's "Request for Reasonable Pricing Statement" (RRPS) process. An example of a current draft RRPS is contained in Appendix E, with a sample of the key property information excerpted in Table 10.

Table 10: Sample of RRPS Property Data

Property ID No./ Parcel No.	Address	City	Adj. Acquisition Price/ Minimum Bid	FMV Buyer	Occupancy	Bed/Bath	Square Footage	Current Monthly Rental Rate	Open House
No. 21/ 43710	5524 Kendall Avenue	Los Angeles	$190,300	No	Vacant	5/1	1818	N/A	To be Determined
No. 22/ 48144	5501 Berkshire Avenue	Los Angeles	$153,200	No	Occupied	2/1.5	1650	$1,815	To be Determined
No. 25/ 48147	5512 Atlas Street	Los Angeles	$152,600	Yes	Occupied	2/1	1678	$1,637	To be Determined
No. 26/ 48150	5513 Atlas Street	Los Angeles	$164,700	No	Vacant	2/1	1770	N/A	To be Determined

Minimum Bid for Bundle: $660,800

[48] Further discussion of the types of HRE is presented in the section entitled III.B.4 – Priority #4: Housing Related Entities (HRE) beginning on page 16.

a) Issuing RRPS (Offering Statement) Bundles

Properties offered through the RRPS process may include one or more (i.e., a single property or a bundle of properties) surplus multifamily residential properties, and/or surplus single-family residential properties. Properties may be offered with or without tenants.

Properties sold to HREs through the RRPS process are delivered "as-is".

Caltrans is solely responsible for selection of properties to be offered on a RRPS.[49] Caltrans has denied requests for HREs to suggest or to select the contents of RRPS, however Caltrans did share some insight into how they will bundle properties for RRPS:

- Two to four properties per bundle
- Bundled locations in the same municipality proximate to one another
- Minimum Price of less than $1.0 million, per bundle
- Include one (1) property with a current tenant with household income at 150% AMI or higher.

b) RPS (Bids) Evaluation & Selection

Upon release of RRPS, HREs will have 45 days to evaluate the opportunity and potentially submit a bid (called a "Reasonable Price Statement" or RPS) to Caltrans. HREs must provide detailed financial responses to support the proposed "Reasonable Price" to be paid for the property and thoroughly document the HRE's organizational capacity to complete the proposed project.[50] In no case shall the HRE's proposed price be less than the Minimum Price as indicated in the RRPS.

> "Reasonable price" means the price which is best suited to the economically feasible use of the property as decent, safe, and sanitary housing at affordable rents and affordable prices established by the entity in accordance with section 1478(c).[51]

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[49] The first round of RRPS releases was conducted in Spring 2018 (i.e., Phase 1 – Round 1 RRPS), which led to two (2) HREs being selected to enter escrow on eight (8) properties. As of June 2018, none of these transactions for closed escrow. Caltrans has announced that a Phase 1 – Round 2 RRPS will be released in June 2019 containing 19 properties in several bundles.

[50] HCD will assist Caltrans with review of submit RPS. Please refer to Appendix F for a presentation of HCD's significant expectations for HRE documentation of submitted RRPS responses.

[51] 21 CCR§ 1476(bb)

HRE-submitted RPS (i.e., bids) will be evaluated by HCD and Caltrans following the grouped sub-order of HRE priority discussed in Section B.4 of this report. HCD has indicated that there are no additional scoring criteria at the current time. HCD states on Slide 17 of its May 2019 presentation to HREs that: "Selected HRE is not correlated to either the highest or lowest price."[52] This statement supports the notion that an HRE proposing a lower Reasonable Price bid at a higher level of the sub-order of HRE priority could have their bid (RPS) selected over an HRE offering a higher bid price but at a lower level of the sub-order of HRE priority. No more specific evaluation criteria or scoring criteria have been made public by HCD.

There is no prescribed schedule of performance for HCD/Caltrans to complete RPS evaluation and notify the selected HRE of any potential RPS award.

c) Leveraging City of South Pasadena "Designated HRE" Status – Dual Escrow with Potential HRE Joint Venture Partners

The sub-order of HRE priority is an important tool and provides "Designated HREs" such as the City of South Pasadena with the potential to have first pick of RRPS opportunities. The City's higher level of HRE priority would also extend to other HREs with which the City might joint venture (JV), by agreeing to purchase a property through a dual escrow. While some staff costs may be required to support this approach, leveraging the City's Designated HRE status would be a valuable tool allowing the City to assist with property control without a large capital outlay. This approach requires that the City's JV partner is another Program-qualified HRE.

d) HRE Closing Process Under RRPS

The HRE selected through the RRPS process would then be offered a Purchase & Sale Agreement (PSA) by Caltrans. Upon execution of the PSA, Consultant presumes that an escrow would be opened, however, this is not specifically documented in the sources. As no closings have yet to occur under the RRPS process, the mechanics of the transaction are unclear. HCD's May 2019 presentation to HREs provides the following general guidance:

- Enter into a Purchase & Sale Agreement
- Work with Caltrans Real Estate Consultant throughout the escrow period

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[52] See Appendix D, page 9.

- Find a loan from a commercial bank, a CDFI, a public agency lender, etc.….
- Sign CC&Rs – the recorded Use and Resale Covenant
- HRE must first offer to sell the property at Fair Market Value (FMV) to the current tenant in good standing and who intends to be an owner occupant (simultaneous escrow) pursuant to section 1478(c)(2) of the Program Regulations[53]

HCD's presentation further suggests the following "post-close" activities:

- Repairs – permits, bids, rehab work
- Listing vacant property for rent
- Tenant qualifications (income limits)
- Sign lease
- Tenant moves in

Regulations do not provide a specific schedule of performance for HRE closings. A conservative assumption would be to presume a similar schedule of performance as that required for closing of a fair market value (FMV) transaction under the COPS process (see Table 11 under "Sales to Others") would apply to the RRPS closing process for an HRE transaction, or an estimated 240 to 270 days (± 9 months).[54]

e) HRE Compliance with Tenants' "First Right of Occupancy" & Handling of Potential Tenant Displacement

As summarized in Table 4, current tenants of properties proposed for HRE acquisition must be offered a specific "first right of occupancy" by the HRE. The purpose of this "first right of occupancy" is to provide options for the current tenant to maintain residency at the property.

However, current tenants that refuse all of the HREs offers under "first right of occupancy," may face eviction. In this scenario, current tenants would be offered relocation benefits as outlined in Program Statutes at Government Code 54238.3.

The Program is silent as to the party responsible (i.e., Caltrans as seller of HRE as buyer) for: a) carrying out evictions; b) payment of any potential relocation benefits; c) timing of eviction

[53] Further discussion of how the HRE must perfect the tenant's "first right of occupancy" is discussed in Section III.B.4.
[54] Email with Steven Marshall of HCD.

process relative to the RPS (bid) or resulting escrow process; or, d) adjustments to the close of escrow schedule deadlines resulting from delays arising from processing of evictions.

f) HRE Data Sharing & Tenant Access During RRPS Process

Initial responses from Caltrans and HCD indicate that limited data will be shared with HREs in support of their evaluation of RRPS opportunities and formulation of RPS (bid) submittals. It is not clear the extent of property condition and tenant information currently available to Caltrans, but Consultant has determined that more information is available to Caltrans than they are willing to share. Lack of data sharing by Caltrans will materially affect an HRE's ability to make an informed opinion of value and project feasibility (i.e., the requirements of the RPS submittal), and will likely result in fewer RPS responses and/or some RRPS offerings not receiving HRE responses.

> Note: Properties receiving no RPS submittals from qualified HRE, or receiving insufficient RPS submittals from qualified HREs that are subsequently rejected by HCD/Caltrans, would then proceed to level #5 of the "order of priority" and be offered at fair market value. There are no tenant rights to remain at level #5 and beyond, greatly increasing the potential for tenant displacements (i.e., evictions). Displaced tenants at level #5 and beyond would still be eligible for relocation benefits required by Government Code 54238.3.

Based on interviews, and the results from Phase 1 – Round 1 RRPS, it is possible that Caltrans data sharing would be limited to that data sample shown in Table 10. HREs will likely have access to the listed RRPS properties for an "open house"-style inspection. Such access could provide some necessary information, but would be less efficient than Caltrans providing standard documentation of property specifications and condition.

Even more critical to an HRE's RPS evaluation and bid submittal would be access to standardized Caltrans information regarding current tenants remaining in properties. As discussed in Section III.D.1.a) Caltrans has comprehensive data regarding single-family tenant incomes and may have the same data for multifamily tenants. If this tenant information is not shared by Caltrans, HREs will need to contact tenants directly to underwrite the HRE's RPS bid to the income levels and disposition preferences of the current tenant.

Caltrans has not acknowledged that this is an important step in an HRE's review process, and includes no such tenant information sharing, or procedure for HRE collection of tenant

information, in the Caltrans or HCD presentation of the RRPS process. Interviews suggest that Caltrans may believe that HREs should expect to perfect this tenant information "post-close". If such a Caltrans expectation was proved out through future rounds of RRPS process, this expectation would lead to very few HRE responses for tenanted properties, as the expectation would conflict with professional real estate acquisition and financing underwriting standards.

In an emailed response from HCD dated 11 June 2019, this issue is slightly clarified:

> "Caltrans will provide the current rental amount as part of the RRPS, so HREs will know the rental amount/revenue from the property. Caltrans will try to obtain a release from the tenant to provide tenant's contact information to the HRE, and the HRE will need to get the household income info directly from the tenant. Caltrans does not provide tenant income information."[55]

In a follow-up phone conversation with Steven Marshall of HCD regarding the above response, Mr. Marshall suggested that Caltrans might be able to provide the maximum Program-compliant "new rent" that the current tenant could be charged. Consultant agreed that this would be more efficient than having multiple HREs try to underwrite the current tenant.

In summary, Consultant recommends that Caltrans share all available data with qualified HREs during the RRPS process, including:

- property information, including a standard home inspection report conducted by a 3rd party home inspection hired by Caltrans; and,
- tenant information, including tenant household size, gross annual income, disposition preferences and contact information.

If the above information includes privileged information, Caltrans could require HREs to sign a non-disclosure agreement.

3. Sales to Others ("Process C")

Sales at levels #1, #5 or #6 of the "order of priority" are limited to fair market value (FMV) sales prices. It is presumed that these potential buyers will receive a COPS from Caltrans with only a

[55] Email received 11 June 2019 from HCD staff member Steven Marshall responding to Consultant questions.

FMV price indicated. As such, potential buyers may accept the COPS and proceed with purchase of the property so long as they meet the following deadlines:

Table 11: Potential Buyer Schedule of Performance for COPS Sales at FMV Price

Process Step	Day	Deadline
Receive COPS	Day 0	n/a
Accept COPS & Return to Caltrans	Day 30	Within 30 Days of receipt of COPS
Receive Contract for Sale (COPS RPA)	Day 90	Within 60 days of acceptance of COPS
Execute COPS RPA	Day 120	Within 30 days of receipt of COPS RPA
Close Escrow	Day 240 to 270	Within 120 days of executed COPS RPA + potential 30-day extension

E. Limitations on Initial & Resale Transactions (CC&Rs)

Surplus residential properties sold at any price other than fair market value (FMV) price will be subject to covenants, conditions & restrictions (CCRs) that include[56]:

- There is no preset term or expiration date for the CCRs. The CCRs are recorded against the property prior to sale and are in effect until the property is resold at a market price.
- Property owner must be owner occupied at all times. Unit rental is allowed only on a "hardship" basis, must be approved by Caltrans, and cannot account for more than 12-months of approved rentals in any 60-month period. Caltrans maintains inspection rights to verify owner occupancy.
- Transfers of the property are limited to: a) inter-spousal transfers; b) transfers to income-qualified heirs; and, c) sales to other income-qualified buyers as defined in the Regulations. All other transfers trigger a default of the CCRs that require sale of the property at a Resale Market Price.
- Buyer must agree to two-tiers of value sharing, as follows:
    - Net Equity Share: "Net Equity" is defined as difference between the Caltrans Approved Appraised Fair Market Value and the Affordable Price of the Property

[56] Appendix G contains a sample CCR for HRE purchases. There is a similar CCR for non-HRE sales from Caltrans direct to current tenants. This summary is a simplified synthesis of both versions.

at the time of initial sale of the Property by Caltrans to purchaser. Upon subsequent sale at a Resale Market Price, purchasers agree to:

- Purchased by New Owner from Caltrans: 100% of Net Equity is paid to CalHFA.
- Purchased by HRE from Caltrans: Net Equity is split 50/50 between HRE and CalHFA.
- Purchased by New Owner from HRE: Net Equity is split 50/50 between HRE and CalHFA.[57]

  - Net Appreciation Share: "Net Appreciation" is the difference between the Caltrans Approved Appraised Fair Market Value and the net proceeds from a future Resale Market Price.[58] After the 6th year of ownership, the purchaser is entitled to retain 100% of Net Equity Appreciation under the terms of the CCR. During the initial six (6) years, a sliding scale of Net Equity Appreciation between the purchaser and CalHFA is show in Table 12.

- So long as Net Appreciation terms remain in effect, if Owner proposes to re-finance the property with a "cash-out" mortgage provision, Owner must share cash-out proceeds with CalHFA based on the current Net Appreciation share provisions in effect at the time of the closing of the re-finance.

Table 12: Schedule of Net Appreciation Share Between Buyer & Seller as per CCRs

Year of Ownership Upon Transfer	Owner's (Buyer's) Share	CalHFA's (Seller's) Share
Beginning in Year One	0%	100%
Beginning in Year Two	20%	80%
Beginning in Year Three	40%	60%
Beginning in Year Four	60%	40%
Beginning in Year Five	80%	20%
Beginning in Year Six	0%	100%

If a transfer of a purchased property occurs during the first year after purchase, Caltrans will presume that purchaser did not intend to make the property the purchaser's primary residence and may pursue legal action against purchaser to recoup the difference between the actual price

[57] This is not clear from sources, but is proposed by Consultant based on typical AHOP policies.
[58] The CCR defines the net proceeds to include the following deductions: (i) Any Net Equity; (ii) The amount necessary to pay off the Lender Loan; (iii) All actual Closing Costs paid by Owner when the Property is sold; (iv) The Owner 's down payment; and, (v) Any Capital Improvements. Capital improvements must meet certain defined cost and permitting thresholds to be consider for inclusion at the "good faith discretion of Caltrans"

paid by purchaser and the fair market value of the property, at the time of Caltrans' determination of non-compliance, plus six percent (6%) interest on such amount for the period of time the Property had been held by purchaser. This requirement for a 1-year hold does not apply to HRE buyers.

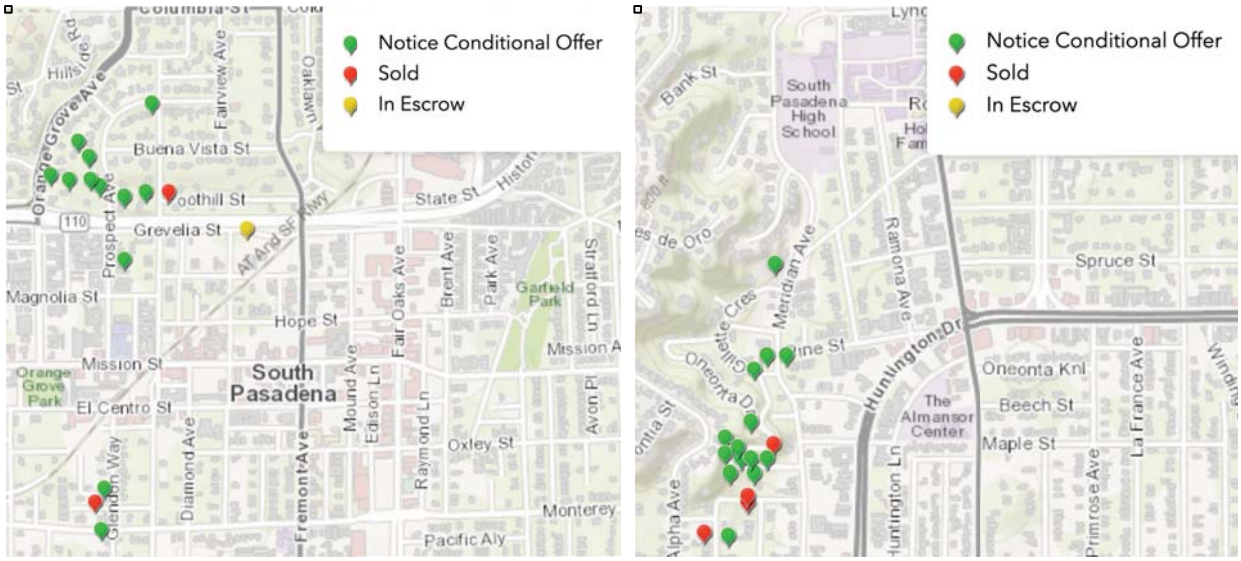
IV. Surplus Residential Property Data Review

A. Summary of Inventory

The Program comprises 99 units in 89 properties in the City of South Pasadena. Location of Phase 1 units with most recent sales status is shown in Figure 3.

Figure 3: Location of Phase 1 Properties in City of South Pasadena, by Sale Status

Northerly City Area | *Southerly City Area*



Source: Caltrans. See: http://www.dot.ca.gov/d7/business/710sales/map.php?reflist=South%20Pasadena,

Table 13 summarizes Program properties and units in the City by product type and phase of sales disposition. Table 14 further breaks out this information to include occupancy and sales disposition status.

Table 13: Summary of Program Properties & Units Located in City of South Pasadena, by Product Type and Phase[59]

Product Type	PHASE 1		PHASE 2		TOTAL	
	Properties	Units	Properties	Units	Properties	Units
MULTI-FAMILY	5	15	7	22	11	37
SINGLE FAMILY	30	30	32	32	62	62
TOTAL	35	45	39	54	73	99

Source: Caltrans; Heritage Housing Partners.

[59] Caltrans property ID# 45423 is a multifamily residential property that contains two (2) units, with one unit listed as being in Phase 1 and the other unit listed as being in Phase 2. This discrepancy creates a perceived error in

Table 14: Summary of Program Units Located in City of South Pasadena, by Phase, Product Type, Occupancy and Disposition Status

Product Type / Occupancy Status	PHASE 1					PHASE 2	TOTAL
	Not Released for Sale	Notice of Conditional Offer	In Escrow	Sold	Sub-total: Phase 1	Not Released for Sale	
MULTI-FAMILY							
Occupied	-	-	-	-	-	12	12
Partially Occupied	7	8	-	-	15	8	23
Vacant	-	-	-	-	-	2	2
Sub-total: Multi-Family	7	8	-	-	15	22	37
SINGLE FAMILY							
Occupied	-	16	1	6	23	26	49
Vacant	-	6	1	-	7	6	13
Sub-total: Single Family	-	22	2	6	30	32	62
TOTAL	7	30	2	6	45	54	99

Source: Caltrans; Heritage Housing Partners

Caltrans characterizes any property containing 2 or more units as a multi-family property. Many of the multifamily properties listed in the previous tables are actually "2-on-a-lot" properties which pose different re-use challenges than multifamily properties with more units. Consultant has this further characterized the multifamily category to differentiate the product type as shown in

Table 15: Detail of Multifamily Properties and Units in City of South Pasadena, by Sub-Product Type & Phase

Product Type	PHASE 1		PHASE 2		TOTAL	
	Properties	Units	Properties	Units	Properties	Units
2-on-a-lot	2	3	7	13	8	16
Plex Building (3+ units)	1	12	2	9	3	21
TOTAL	3	15	9	22	11	37

Source: Caltrans; Heritage Housing Partners

addition when summing the total number of multifamily properties by phase. The indicated total number of multifamily properties is correct. This note applies to Table 13 and Table 15.

B. Windshield Survey of Property Conditions

HHP surveyed Caltrans surplus residential properties in the City. The purpose of this survey was to evaluate the general condition of Program properties based on a visual survey of existing conditions visible from the public right of way (i.e., windshield survey). Consultant scored the surveyed properties on a 5-point scale along five (5) observable property conditions, including: a) paint; b) roof; c) exterior carpentry; d) windows; and, e) landscape. Higher scores indicated worse conditions (i.e., more issues to address in future rehab).

Consultant found occupied properties to be in generally good condition. The roofs were newer, there was minimal peeling paint, the windows and doors were intact, and the landscaping was maintained. It is assumed that Caltrans is required to meet current housing standards as a landlord. However, it is assumed that only limited interior upgrades to finishes, electrical and plumbing have occurred for these properties.

Unoccupied properties were in poorer condition. From the street, Caltrans has "mothballed" these homes to have decent curb appeal by painting the front elevation only and limiting window boarding to those windows along the sides of the buildings, with boards installed from the interior of the residence. Generally, window drapes and blinds are drawn, and the landscaping is maintained as to not draw attention to the vacant home. On closer inspection, roofs need to be partially to fully replaced, paint is peeling and wood cladding is exposed and rotting, and wood windows have severe water damage.

Average the scores for occupied and unoccupied properties produced the following comparison:

Average Property Condition Score
(higher numbers = more deferred maintenance)

Occupied Properties: 1.8 vs. Unoccupied Properties: 2.8

This comparison suggests that unoccupied properties in 55% worse condition than occupied properties. This comparison factor is applied in the following section to suggest a range of rehabilitation costs.

C. Rehabilitation Costs

Estimated rehabilitation costs were analyzed based on a typical single-family residence of 1,500 square feet, with 10' ceilings, 10 exterior and door openings, 2 bathrooms (plus kitchen/laundry, equals 3 wet rooms), and a 2,000 square foot roof.

Table 16: Illustrative Rehabilitation Cost for Typical Caltrans Single Family Residential

Category	Base Case: Occupied	Extended Case: Vacant
Roof	$7,500	$15,000
Paint	Interior: $2.50 / SF Exterior: $10,000	Interior: $4.00 / SF Exterior: $15,000
Exterior Carpentry	5,000	10,000
Windows/Doors	$500 to $750 per opening	$750 to $1250 per opening
Mechanical	Upgrade: $8,500	Replace: $14,000
Electrical	Upgrade: $12,500	Replace: $27,500
Plumbing	Upgrade: $5,500 per wet room	Replace: $8,500 per wet room
Interior Finishes & Appliances	$7,500	$12,000
Landscape	$5,000	$7,500
TOTAL (estimate)	**$125,000**	**$215,000**

Source: DRE Budget Manual; RAAM Construction; Heritage Housing Partners.

The above table assumes that existing site utilities and sewer do not need to be replaced. Assuming soft costs of 30% and contingency of 20%, the indicated range of costs is approximately $125,000 to $215,000 per unit or approximately $85 to $145 per square foot for a rehabilitation of a typical 1,500 square foot single family residence. Non-prevailing wage labor is presumed.

D. Data Enhancements

Initial property data was compiled by Consultant based on a City-provided spreadsheet consisting of 99 records, organized by address. This table included the following fields provided

by Caltrans: Caltrans Parcel Number; Caltrans Disposition Phase Number; Occupancy Status; Boarded Status; and, Unimprovement Status. The City also provided a printed parcel map created by Caltrans locating all Caltrans-owned properties and also indicating Property Type (i.e., Single Family or Multi-family) and Historic Resource Status. Lastly, City provided a GIS data set of all properties in the City. All the above sources were consulted in the following analysis.

Throughout the process, Consultant has maintained the City's original organization based on the address provided; no addresses were changed. Two properties located outside the City of South Pasadena were removed from the dataset.

Additional data sources were consulted, analyzed and utilized by Consultant to extend the data set via a series of data cleaning and enhancement processes, as described in the following sections. The resulting re-compiled data set in Microsoft Excel workbook format entitled `SR-710 Properties in South Pasadena_HHP Analysis.xlsx` is transmitted electronically and is herewith included as integral component of Consultant's work.

a) Multiple Records per Caltrans Parcel Number

Please note that multifamily properties may contain multiple records for the same Caltrans Parcel Number. Consultant normalized data in this manner so that data that differ by address or by unit number could be readily integrated into the dataset. For example, a multifamily property with three units is listed under three separate records (i.e., rows or lines in the dataset) to allow for three different attributes, such as different addresses for each unit, or different sales or occupancy statuses for each unit. When using the dataset, City should run summary tables grouped by Caltrans Parcel Number to avoid incomplete results.

b) Location (Address)

Caltrans Parcel Number 62588 (925 Jane Place) and 61218 (237 State St) are located in Pasadena and have been removed from the list. Some property addresses were not available through the search function of AIS. Such properties were located manually by cross referencing the Caltrans parcel map with Google Maps & StreetView (maps.google.com).

c) Specific Property Data Cleanup

Caltrans Parcel Number 980546 (line 61) had one too many digits. For consistency sake, this property has been updated to 98046 to correlate to the connected parcel: 1010 and 1010 ½ Hope Street.

d) Property Type

The Los Angeles County Assessor's Property Assessment Information System (AIS)[61] was reviewed for applicable property information. Due to the fact that the majority of Caltrans parcels had been off of the assessment rolls for many decades, the "Property Type" in AIS was commonly mistakenly identified as "Other", rather than as multi-family, single-family, or unimproved (i.e., vacant land). For sake of clarity, Consultant has listed several different Property Types labeled in the data set as follows: Property Type per CT (Caltrans); Property Type per Assessor; and Property Type per HHP. As presented in Table 15, Consultant further delineated multifamily property types in to "Property Sub-type".

Because potential multi-family properties were considered of high value to the purpose of this Assignment, Consultant conducted field work to verify the property type (i.e., single-family, multi-family, unimproved) and the occupancy status assigned by Caltrans.

Consultant found that many of these properties labeled as multi-family appeared to be single-family residences (SFD). Further research on the AIS determined that many addresses shared the same AIN (Assessor's Identification Number) and therefore could be confirmed to be MFD (i.e., 2-on-a-lot). The dataset was updated to include Consultant's categorization of the property type.

Comparing the various sources for Property Type versus a field survey, Consultant found that Caltrans data was not reliable and "Property Type per HHP" was utilized as the property type field that takes precedent in further analysis and presentation of the data.

e) Property Improvements

AIS provides limited data regarding improvements (i.e., building square footage, bedroom and bathroom count) for the Caltrans properties. Consultant documented the data available from AIS

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[61] http://maps.assessor.lacounty.gov

and from Caltrans' property fliers. The most complete source of data was available from the "Property Detail" information listed on Caltrans' State Route 710 Sale Properties webpage[62] and from Request for Reasonable Price Statements (RRPS). The documents take precedent for most accurate unit information.

f) Lot Size

Consultant matched each property AIN to the associated Assessor's Parcel Map to calculate or otherwise identify the property lot (land) size in square footage.

g) Occupancy Status

The initial City-provided dataset included columns for "Boarded" and "Vacant". Any properties flagged as "Boarded" or "Vacant" were categorized by Consultant as "vacant", with any unflagged property flagged as "occupied". Unimproved sites were tagged as "n/a". Consultant has also listed an additional column titled "Occupancy Status (Amended)" in order to better clarify status of the Multi-family properties since some of the MFD's are only partially occupied, meaning that there are both vacant and occupied units within a single parcel.

h) Historic Designation

In order to document the historic status of the properties, Consultant identified the properties Caltrans noted as historic (CTH) and those that the City listed in the Historic Resources Inventory (SPH). The City identified resources also have the historic resource status code included (ex. SPH-5D1). The information generally does not match up. The City's inventory takes precedent.

i) Sale Status

Status of property disposition is updated based on the status indicated on the Caltrans Program website as of 5 June 2019. For Phase 1 properties, Caltrans provides one of the following statuses for each parcel: Notice of Conditional Offer; In Escrow; Sold. As no Phase 2 properties have yet to be released for sale, all Phase 2 properties are listed with a sales status of "no

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[62] Assessed June 7, 2019: http://www.dot.ca.gov/d7/business/710sales/map.php

conditional offer released". Phase 1 Round 2 properties will be released in June 2019. The City may wish to track these releases and categorize those properties being acquired by an HRE.

j) Zoning & Yield Analysis

The City-provided ArcGIS map dataset was used to append the current City zoning district designation to each parcel. Consultant compared the lot size with the minimum lot size required by City Zoning Code for the relevant Zoning District to determine whether each property might be considered a standard or sub-standard lot. Properties which met the minimum lot size requirements were further analyzed to determine if additional residential yield may be possible, including potential yields assuming a 35% density bonus for affordable housing. This analysis only identified a potential additional residential yield of six (6) units. Based on this result, Consultant determined that there is relatively little potential to densify the Caltrans properties under the current City zoning.

k) Site Accessibility

Walkscore.com was used for evaluating the accessibility of a property. Consultant noted the score provided for walking, biking, and transit. An average score was then created which Consultant noted as "lower accessibility" or "higher accessibility".

V. Possible Re-use Approaches & Priorities

A. Case Studies

Consultant interviewed two (2) non-profit organizations with experience creating affordable housing opportunities utilizing smaller scale single family and lower density multifamily residential in-fill properties, such as those offered to HREs through the Program. Consultant presents additional information related to Consultant's primary experience as a non-profit developer of affordable housing projects focused on affordable home ownership programs (AHOP). Consultant has utilized information from all three non-profit affordable housing developers as summarized in Table 17 to present the case studies discussed in this section.

Table 17: Summary of Non-profit Affordable Housing Developers Interviewed to Develop Potential Program-based HRE Case Studies

Developer Name / Year Founded / Location	Typical User & Income Target	Rent vs. Own	Typical Project Size	Typical Subsidy Sources	Interested in So. Pasadena HRE Sites?
Restore Neighborhoods LA (RNLA) / 2008 / Los Angeles	FAMILIES & HOMELESS AHOP: <80% AMI Supportive Housing: <50% AMI	Owners (AHOP): SFR Rehab Renters: Homeless PSH	Owners (AHOP): 1 on a lot / 1 + ADU on a lot Renters: 6– 8 on a lot, with no parking	Free land; deal sponsor subsidy funding; flexible CDFI pre-dev, acquisition, rehab, take-out venture loan; Section 8; proceeds from homebuyer close (AHOP only).	Yes
Affordable Living for the Aging (ALA) / 1978 / Los Angeles	SENIORS & HOMELESS Shared Housing: $36,000/yr. Supportive Housing: <50% AMI	Owners: Shared Housing relies on SFR owned by private sponsor / owner seeking qualified senior renters. Renters: Homeless PSH	Shared Housing: 1 on a lot with up to 6 renters in SFR per State conger-gate residential facility statutes. Supportive Housing: 30 units +	CDBG (ops only) Foundations (PRI + Grant); Commercial Bank CRA set-asides; bank loans; Section 8	Yes
Heritage Housing Partners (HHP) / 1999 / Pasadena	FIRST TIME HOMEBUYERS AHOP: 70% AMI +	Owners (AHOP): No rental programs	25 units + 20 du/ac +	Local housing set-aside / impact fee proceeds; CalHome; BEGIN; LACDA programs; NMTC; proceeds from homebuyer close.	Yes

1. Case Study: Single Family & 2-on-a-Lot

ALA and RNLA's existing development and program operations focus suggest potential opportunities targeted to re-use of surplus single-family and 2-on-a-lot residential properties. New Economics for Women (NEW) is included below as an example of a re-use concept from a Phase 1 HRE buyer.

Table 18: Re-use Case Studies – Single-Family & 2-on-a-lot Properties

Product Type Applicability	Re-use Concept	Acquisition Criteria	Funding Partners	Key Issues	Potential City HRE Partner
Single Family / 2-on-a-lot	Senior House Share owned & managed by project sponsor	High Accessibility Score High Bedroom Count of Ability Rehab for up to 6-person Residential Congregate Housing	Acquisition Private Foundations (PRI Loans; Grants) / multiple sponsors Rehab / Take-out Private Lenders (Commercial; CDFI; CRA Departments)	Financing Plan needs long-term take out after 5 years Not Available in Phase 1	Affordable Living for the Aging (Phase 2)
Single Family / 2-on-a-lot	First Time Home Owner (AHOP) + ADU Rental Permanent Supportive Housing (PSH)site redevelopment 6-8 unit	Zoning Support for ADU Zoning Support for PSH, including Zero Parking + Small Unit	GenesisLA Commercial Bank CRA-Dept Loans	Potential to add ADU Additional subsidy source to replace free land Higher costs than current model Bridge funding before site control	Restore Neighborhoods LA (Phase 2)
Single Family / 2-on-a-lot	Affordable Rentals for Homeless Veterans	Prefer ability to redevelop / densify over time	Phase 1 Acquisitions Financed 100% with Commercial Bank Loans	Acquire at 150% AMI rental; no subsidy program overlay	New Economics for Women (NEW) (Phase 1)

Source: ALA; RNLA; NEW; GenesisLA; Heritage Housing Partners

2. Case Study: Multi-Family "Plex" Apartment Building

HHP's experience as a developer of higher density multifamily affordable homeownership (AHOP) developments offer potential opportunities targeted to re-use of multifamily properties greater than 2-on-a-lot.

Table 19: Re-use Case Studies – Multifamily Properties

Product Type Applicability	Re-use Concept	Acquisition Criteria	Funding Partners	Key Issues	Potential City HRE Partner
Multifamily (3+ units / lot)	First Time Home Owner (AHOP)	Tenant interest in forming HOA vs. Limited Equity Housing Co-op	CalHome HOME Commercial Loans (CRA Department)	Tenant Capacity to Originate Mortgage Ability to Overlay HHP AHOP Covenants atop CCRs Subsidy Source	Heritage Housing Partners (HHP) (Phase 2)
Multifamily (3+ units / lot)	Affordable Rental	Tenant interest in maintaining as 100% rental	Commercial Bank Loans	Subsidy source	New Economics for Women (NEW) (Phase 1 alt)

B. Acquisition and Re-use Priorities

Consultant believes that with limited subsidy funding sources, limited HRE capacity and the intrinsically challenging acquisition process laid out in the Program, the following three (3) tiers of priorities should be considered, driven by the case studies above and funding opportunities discussed in Section VI.B.3.

Consultant suggests that priority be given to acquisition of surplus multifamily residential properties that would result in the largest number of affordable units. The highest density multifamily surplus residential properties would be the best candidates for acquisition. There are three (3) Caltrans properties in the City with three or more units, which consultant refers to as "Tier I Priority" as listed in Table 20.

Table 20: Tier I Priority – Multifamily Properties

Address	Caltrans ID	Units	Tenancy	Phase
626 Prospect Avenue	68463	12 units	Partially Occupied	Phase 1
705-711 Fairview Avenue / 1041-1043 Magnolia Street	68453	6 units	Occupied	Phase 2
1002-1008 Hope Street / 726 Meridian Avenue	68439	3 units	Partially Occupied	Phase 2

Nine (9) "2-on-a-lot" surplus residential properties exist in South Pasadena, as listed below. While characterized by Caltrans as "multifamily," given limited financial resources for HRE acquisitions, Consultant has characterized these properties as lower "Tier II Priority" for conversion to affordable housing due to the lower number of units resulting from these potential property acquisitions, as shown in Table 21.

Table 21: Tier II Priority – 2-on-a-Lot Properties

Address	Caltrans ID	Units	Tenancy	Phase
705 Bonita Drive	45423	2 units	Partially Occupied	Phase 1
823-825 Bonita Drive	68671	2 units	Partially Occupied	Phase 1
1832 Gillette Crescent	45423	2 units	Partially Occupied	Phase 2
1134-1136 Glendon Way	61161	2 units	Partially Occupied	Phase 2
905-907 Summit Drive	62882	2 units	Occupied	Phase 2
908-910 Monterey Road	68358	2 units	Occupied	Phase 2
705 Bonita Drive	45423	2 units	Partially Occupied	Phase 1
823-825 Bonita Drive	68671	2 units	Partially Occupied	Phase 1
1832 Gillette Crescent	45423	2 units	Partially Occupied	Phase 2

ALA & RNLA also expressed interest in further consideration of selected single-family (SFD) property acquisitions in areas with "higher accessibility". Given the challenges of the RRPS process and uncertainties with regards to avoiding tenant displacement, a greater preference also exists for acquiring unoccupied properties. Table 22 shows these suggested Tier III priorities. As only two (2) SFD properties meet both these criteria, and the list was expanded to twelve properties to include "lower accessibility" properties.

Table 22: Tier III Priority – Single-Family Vacant Properties

Caltrans Parcel Number	Address	Accessibility
67558	534 Orange Grove Avenue	Higher
68509	535 Meridian Avenue	Higher
67556	901 Bonita Drive	Lower
68109	808 Valley View Road	Lower
68635	530 Orange Grove Avenue	Lower
68670	822 Valley View Road	Lower
45857	302 Fairview Avenue	Lower
61337	216 Fairview Avenue	Lower
67022	1722 Gillette Crescent	Lower
68598	1131 Columbia Street	Lower
68599	217 Fremont Avenue	Lower
68600	225 Fremont Avenue	Lower

VI. Implementation

The Program as presented above represents a complicated and non-standard process that varies from established norms of real estate investing, property acquisition procedures, and mainstream affordable housing policy. While in the abstract, the Program's significant inventory of residential properties offer great opportunities to preserve and create affordable housing, the details of Program implementation contain considerable risks and challenges. This section summarizes some of Consultants key findings and suggestions regarding any potential City implementation of an affordable and supportive housing strategy based on the Program.

A. Risks

1. Housing Development & Operations Exposure

The City does not have the financial capacity or expertise to directly acquire surplus residential property through the Program. Even if funding were made available, Consultant recommends that the City avoid direct ownership of residential assets. Instead, partnerships with experienced affordable housing developers serving as an HRE partner to the City would greatly insulate the City from standard residential development and affordable housing risks, such as: building defect issues arising from rehabilitation of existing homes; AHOP buyer or affordable renter underwriting; on-going housing compliance; and, initial and on-going tenant displacement.

2. Tenant Displacements / Evictions

It is possible that some tenants will be displaced as a result of full Program implementation. While displaced tenants would be offered relocation benefits as outlined at Government Code 54238.3, Caltrans has indicated that it will have limited involvement in any potential evictions:

- HREs are responsible for negotiating a Program-compliant rent with all current and future tenants.
- If there is a rent or other occupancy-related dispute between HRE and a current tenant of a unit to be acquired by the HRE, the HRE is responsible for evicting the current tenant.
- Caltrans will not delay close of escrow to resolve HRE disputes with current tenants or to perfect an eviction.
- Caltrans will pay for relocation benefits compliant with Government Code 54238.3 for any tenant displaced within 90 days of property close of escrow with the HRE.

Given the short 90-day window in which Caltrans will pay for relocation benefits, it is likely that HREs acquiring properties will ultimately be responsible for paying the relocation benefits to the evicted tenant.

In addition to the cost implications, the City may wish to avoid being responsible for tenant displacement. This is another reason why the City should avoid direct ownership of surplus residential property. In addition, if the City undertakes any potential partnerships with HREs, the City might consider requiring a "no displacement" clause in joint venture or dual escrow agreement.

3. Limited Phase 1 HRE Capacity

The technical and financial capacity and general development and operational experience of the HREs registered for Phase 1 is limited. Based on HCD's voluminous expectations for an appropriate response to issued RRPS (see Appendix D), Consultant lacks confidence that existing HREs will successfully acquire and preserve needed housing. New Economics for Women (NEW) was the only HRE from the Phase 1 – Round 1 RRPS process to be awarded properties.

For Phase 2, Consultant suggests that the City to direct City staff resources to outreach to potential HRE partners and encourage them to register as a certified HRE. For example, the City may wish to use a resource such as the Southern California Association of Non-profit Housing (SCANPH) to communicate to its member developers about the potential for affordable housing development opportunities in the City.

In general. expanding the pool of qualified potential HRE partners will benefit the City whether or not the City decides to joint venture with any HRE or dual escrow any potential property acquisitions.

In the meantime, Caltrans has stated that Phase 1 – Round 2 of the RRPS process will be released in June 2019. If the City wishes to use its preferred status as a Designated HRE to secure any key priority properties, Consultant suggests that City contact and evaluate all registered HREs to determine which, if any, might have sufficient capacity to partner with the City. The City should consider criteria that it might use to select potential HRE partners, such as:

capacity; experience; number of units under management; financing plan; proposed housing re-use plan and target user base; and, policies towards potential existing tenant displacement.

B. Opportunities

1. Designated HRE Status

"Designated HREs" such as the City of South Pasadena have higher level rights in the sub-order of HRE priority. These rights may be used as an important tool providing the City with an opportunity to have first pick of RRPS opportunities. The City's higher level of HRE priority would also extend to other HREs with which the City might joint venture (JV), such as by agreeing to purchase a property through a dual escrow.

This approach requires that the City's JV partner is another Program-qualified HRE. Per the Regulations, only HREs may purchase multifamily surplus residential properties and/or surplus single-family residential properties that are not purchase by current tenants at a higher order of priority. Thus, the use of dual-escrows to purchase surplus residential property through the Program is limited to dual-escrows between HREs, including between a Designated HRE and another HRE.

While some staff costs may be required to support this approach, leveraging the City's Designated HRE status would be a valuable tool that would allow the City to assist with property control without a large capital outlay. The City may also wish to consider pro-tenant and pro-affordable housing criteria that it might use to screen prospective HRE partners.

2. Tenant Capacity Study

As a complicated Program, much focus has been placed on the mechanics of how, when, at what price, and from whom a current tenant might be eligible to purchase the home in which they reside. Understanding this process takes considerable effort, and has largely over-shadowed the important consideration of whether or not the Program eligible tenant is sufficiently credit worthy and financially capable to originate the necessary mortgage to purchase the home.

Evaluating the 2-step process of being 1) Program-eligible; and 2) Ready to Originate a Mortgage is a common process among experienced AHOP developers, such as Heritage Housing

Partners (Consultant). Based on our experience of underwriting both parts of the 2-step process, Consultant recommends that interested parties pursue creation of a "tenant capacity study" to assist current tenants of "key multifamily properties" to:

a) document current tenant disposition preferences (i.e., stay as renter; stay as owner; re-locate);

b) document current tenant gross household incomes and other relevant household data in order to evaluate the likely Program eligibility of each current tenant household;

c) use results of "b" to establish likely rent or sales price, based on Program regulations, and the income category and disposition preference of each current tenant household;

d) conduct mortgage pre-qualification of each current tenant household that wishes to purchase their unit to determine the "readiness" of that household to successful originate a first mortgage in support of the purchase or their unit;

e) the sum of the first mortgage amounts plus down payments resulting from "d", plus the capitalized borrowing capacity of any net rental income for current tenants who wish to remain as renters represents the value of existing purchase price that could be funded via the financial capacity of the current tenants. This information could be shared with HRE partners to assist with development of an overall financing strategy for the purchase, necessary rehabilitation and preservation of the property as affordable housing;

f) develop necessary subdivision, condo plan & HOA legal documents or other most efficient legal form of community interest development (CID) to support the separation of multifamily apartments into legally divisible units for sale.

The costs of the tenant capacity effort could be funded by a grant from SB2 Planning Grants, as discussed in the following section.

3. Funding Capacity

Consultant conducted a survey of current funding sources that might be pursued by a combination of the City and/or potential HRE partners with the City to support proposed pre-

development planning, acquisition, and rehabilitation of Program properties. Table 23 summarizes these programs.

None of these funding sources is directly applicable to the type of scattered site, low-density affordable housing opportunity offered by the Program. Consultant has provided an indication of funding potential for Program-related activities; however, significant challenges remain:

- Demonstrating site control will be difficult for all programs, as the timing of the RRPS process and NOFA (Notice of Funds Availability) for the indicated programs may be difficult to align.
- Funding program targets for project size, density or funding levels do not easily align with a scale of investment offering anticipated to be offered in the RRPS process.
- Many programs require matching funds or minimum leverage ratios, further complicating the assembly of a potential financing plan.

The funding opportunities are ranked by highest potential, with following of special note:

- SB 2 Planning Grants. This program is an excellent opportunity to fund additional City-led efforts related to supporting Program-related activities, such as the proposed "tenant capacity study". This funding source is accepting over-the-counter applications through November 2019.
- CalHome. This program could be used to provide additional subsidy to preserve and renovate affordable homeownership opportunities for low-income first-time homebuyers of Program properties. The City or a non-profit HRE entity could apply for the funding and CalHome NOFA will be released in September 2019.
- HOME. This program is similar to CalHOME and could be used for similar purposes. Given that this program exempts projects of less than 12 units from prevailing wages, Consultant suggests that this source could be used to fund two (2) to three (3) scattered site RRPS bundles. A HOME funds are awarded to the City and NOFA will be released in August 2019.

As discussed in the case studies section, experienced non-profits focused on small-scale in-fill development are evaluating other funding strategies utilizing a combination of commercial bank loans, community benefit investors and private foundations.

Table 23: Summary of Selected Funding Programs Potentially Applicable to City / HRE Implementation

Program Name / Sponsor	Program Target	Eligible Uses	Form of Assistance	Key Issues	Funding Potential / Next NOFA
SB 2 Planning Grants / HCD	Update planning & land use documents in support of affordable housing production.	1-time initiatives	Grant	Small City: $160,000 (Max)	High / Over the Counter, ending Nov-2019
Private Lenders (Commercial; CDFI; CRA Departments) / multiple sponsors	Any secured cash-flowing investment	Long-term financing	Loans (perm)	Educate on risks of Program CCRs	High / On-going
Private Foundations (PRI Loans; Grants) / multiple sponsors	Community-based investments serving a social need	1-time initiatives; short-term / mezzanine financing	Grants Loans (mezz)	Demonstrated community benefit; Not accustomed to assisting real estate activities	Medium-High / On-going
CalHome / HCD	First-time Home Buyers	AHOP	Loans (perm)	Subsidy comes in at closing; requires bridge financing	High / Sep-2019
Home Investment Partnerships Program (HOME) / / HCD	Affordable rental or AHOP	Acquisition Preservation	Loans (perm)	Prevailing wage for projects of 12 or more homes	High / Aug-2019
Golden State Acquisition Fund (GSAF) / GSAF	Affordable rental housing	Acquisition Preservation	Loans (5-years max)	Requires matching funds	High / On-going
Community Development Block Grant (CDBG) / HCD	Affordable Housing Planning Activities	Rental Ass't SFD & MFD Housing Rehab	Grants (Planning: <$100K; HA/HR <$1.0M)	Potentially Competes with other City funding priorities for CDBG	Medium / Jan-2020
Multifamily Housing Program (MHP) / / HCD	Permanent and transitional affordable rental housing	New construction Rehabilitation Acquire/rehab	Loans (perm)	HCD HRE presentation assumed standards from this program	Low-Medium / Jan-2020
Multifamily Rental Housing NOFA / LACDA	Families Homeless Special Needs	Affordable Rental Housing Potential AHOP set-aside in 2020	Loans (perm), often in conjunction with LIHTC	Requires larger projects with established site control	Low-Medium / Fall 2019
Veterans Housing and Homelessness Prevention Program (VHHP) / HCD	Affordable rental housing for Veterans	Acquisition, construction, rehabilitation, and preservation	Loans (perm)	Site control	Low-Medium / Nov-2019

Program Name / Sponsor	Program Target	Eligible Uses	Form of Assistance	Key Issues	Funding Potential / Next NOFA
No Place Like Home / / HCD via County	Homeless	Acquisition, design, construction, rehabilitation, or preservation of permanent supportive housing	Loans (perm)	Site control Applicants must show leverage of other funding sources	Low / Sep-2019
Affordable Housing Sustainable Communities (AHSC) / HCD	T.O.D.-oriented affordable rental housing intended to reduce greenhouse gas emissions	New Construction	Grants Loans (perm)	Requires minimum residential density of 30 du/ac	Low / Oct-2019
Supportive Housing Multifamily Housing Program (SHMHP) / HCD	Supportive affordable housing rental units	Acquisition, rehab or new construction	Loans (perm)	40% of units must be supportive housing units	Low / No NOFA scheduled

Source: HCD; County of Los Angeles; Heritage Housing Partners.