SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

17

April 3, 1990

(THIS MATTER IS BEING HEARD BY THE JOINT COMMITTEES AND THE COUNCIL ON THE SAME DAY AT THE REQUEST OF THE CITY COUNCIL.)

Budget & Finance Committee
Transportation/Community
Development Committee
Sacramento, CA

Honorable Members in Session:

SUBJECT: Various Matters Regarding the Shasta and Argus Hotels

SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the Redevelopment Agency and City Council of the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the recommendations outlined in the attached report.

Respectfully submitted,

Bob Smith

ROBERT E. SMITH
Executive Director

TRANSMITTAL TO COMMITTEE:

Solon Wisham, Jr.

SOLON WISHAM, JR.
Assistant City Manager

Attachment

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SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

April 3, 1990

City Council of the
City of Sacramento
Redevelopment Agency of the
City of Sacramento
Sacramento, California

(THIS MATTER IS BEING HEARD BY THE JOINT COMMITTEES AND THE COUNCIL ON THE SAME DAY AT THE REQUEST OF THE CITY COUNCIL.)

Honorable Members in Session:

SUBJECT: Shasta and Argus Hotels

SUMMARY

This report recommends that the Redevelopment Agency take action to purchase the Shasta and the Argus Hotels (commonly referred to as the Shasta). Following the acquisition, the Agency should either issue a Request for Proposals (RFP) for a developer to acquire, rehabilitate and operate the structure as a Single Room Occupancy (SRO) residential hotel, affordable to very low-income single persons, or develop a plan to operate it itself.

BACKGROUND

Pursuant to your directions on February 13, 1990, staff prepared and submitted an interim report summarizing certain facts concerning the Shasta, identifying a number of options which the Agency could take in order to help preserve the building as an SRO and listing a number of concerns relative to each of the options listed. The interim report is attached as Exhibit A. This current report, also in response to your direction, contains an evaluation of the options and a set of recommendations for action.

The interim report lists six distinct options and several sub-options for City action which are directed exclusively to the Shasta. These are analyzed below, and are the focus of this report.

The interim report also lists several regulatory mechanisms for limiting SRO conversion or demolition (e.g., moratorium, conversion replacement ordinance). These would apply to all SROs in the Central City and would be in addition to the selected option for

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the Shasta. More analysis of these regulatory mechanisms is necessary, therefore this report does not contain a specific recommendation in this regard. If so directed, staff will report back with a moratorium and/or conversion ordinance. A moratorium on conversions could be justified in the light of the Central City Housing study underway. A conversion ordinance would require more extensive legal analysis.

Analysis of Options for the Shasta

1. Do nothing and allow the real estate market to dictate the ultimate disposition.

   Commentary: Given the current policy of preserving SROs, this is not considered a desirable alternative since the likely outcome would be some use other than an SRO hotel. Additionally, it is possible that the structure could remain virtually abandoned for a considerable period of time, negatively affecting other development at a critical location in the heart of the City. In its present condition it constitutes a significant blighting influence and a danger, which ultimately would have to be abated.

2. Work with the current owner to the extent he agrees to pursue a state loan, and be prepared to provide local financial assistance.

   Commentary: As noted in the interim report, the owner does not have a favorable track record for upgrading and appropriately managing SROs. Agency staff does not recommend this option.

3. Wait and see what happens with the sales and default efforts currently under way. Work with any new, hopefully credible, party who may acquire the property.

   Commentary: (a) There is no assurance that a new owner will wish to utilize the structure as an SRO. (b) Someone without the desirable financial, managerial and rehabilitation qualifications may acquire the property. In this event the City would be forced to negotiate with that person to preserve the property as an SRO. If the City declined to make a loan and/or to support an application to the State, the property could remain as is and continue to be a matter of concern to the City.

4. Support a credible prospective owner in efforts to purchase the project from the current owner or from the bank, in the event of a Trustee Sale.

   Commentary: Staff has discussed this property with several credible developers who would undoubtedly qualify on the basis of their financial situation and track records for both Agency and State loans. It is unlikely, however, that any party would acquire the property without reasonable advance assurance that Agency funds would be available to assist in the acquisition (whatever the price) and the subsequent rehabilitation. The availability of State funds is even more uncertain at this time. Consequently, the new owner would be assuming a major liability and responsibility without the certainty of funds to correct this situation. This approach is desirable but may result in delayed or prolonged action, placing the SRO use at considerable risk.

5. Purchase the note from the bank. Foreclose and take title after the current Trustee Sale extension period expires, if the property has not been sold by then.

   Commentary: This approach places the Agency in a somewhat awkward position. We do not know the current value. It could be less than the note amount. Further, persons interested in acquiring and rehabilitating the property would be looking to the Agency for financial assistance. Any analysis of funding potentials would have to include an Agency judgment on the prospective sales price of the property, since ultimately public funds will subsidize the acquisition and rehabilitation of the property. The existence of a substantial note on the property would effect this judgment. Potential bankruptcies forestalling the foreclosure process or other legal problems are a possibility as well, under this option.

6. Acquire the property outright and then, either rehabilitate and operate the project or RFP for a developer with the proper qualifications.

   Commentary: This is the most direct approach as it puts the Agency in a position of control over costs, financing, rehabilitation specifications and ultimate management of the Shasta. It also places the Agency in a more proactive versus reactive mode. The Agency would select the development and management team if that method is chosen. This approach also has a time advantage in that the Agency could aggressively and relatively quickly put together a development package and seek a State loan commitment from either Proposition 77 or 84 or through one of several possible Federal programs.

FINANCIAL DATA

The total development cost for acquiring and rehabilitating the Shasta could range between $2,700,000 and $3,500,000. ($36,000 - $46,000 per unit). Exhibit B is an illustrative proforma at the low end of the range which was formulated without detailed knowledge of the "inside the walls" condition of the structure.

The acquisition price that the Agency should pay will be established by the appraisals recommended in this report. The owner has the property listed for $1,400,000. The $850,000 included in the proforma reflects the current debt and liens against the property.

Staff estimates that hard rehabilitation cost could be approximately $1,200,000 to $2,200,000. Although this estimate is based on experience with similar types of properties, it was done without the benefit of detailed architectural or engineering studies. Seismic reinforcement alone could increase costs substantially. Other costs are also detailed in Exhibit B.

Not all the costs would be needed in the form of direct subsidy. Assuming a) rents of $220 and $250 per month, b) a developer equity of 10% and c) the maximum supportable conventional debt, the required subsidy will range between $1,800,000 and $2,600,000 ($24,000 - $35,000 per unit). (By comparison, the total public subsidy for the 56 unit Ridgeway Hotel two years ago was approximately $23,000 per unit.)

Potential funding sources are as noted below:

1) Given the magnitude of funding required, approval of Proposition 84 funds administered by the State Department of Housing and Community Development should be sought immediately. This program has a $25,000,000 set-aside for acquisition and rehabilitation of SROs. The maximum loan per SRO unit is $25,000. Competition for these funds will be keen, however, and the Agency is not guaranteed an award. Nor is there certainty that the funds will be available when an application is finally submitted. Consequently, the sooner we apply, the better. (Other State and Federal sources should also be pursued.)

2) The Agency's 1990 budget contains an allocation of $1,000,000 for an SRO program from the pending 1990 Tax Allocation Bonds (TAB). The size of that issue, however, has yet to be determined and may be smaller than originally thought possible - (an issue further complicated by the fact that an additional $4.3 million is required for the Downtown Plaza project). Although the SRO program report being prepared will recommend that $500,000 of the allocation be made available for land acquisition and new construction, it also will recommend that highest priority be given to preserving existing SROs in danger of being lost. A portion of the TAB SRO funds therefore, could be used to leverage the maximum loan possible from the State. Again, however, none of these funds are available now. Further, even if they do become available, the allocation of TAB SRO program funds to the Shasta may preclude other SRO program efforts.

3) A third potential source of funds is through sale of Low Income Housing Tax Credit benefits. These have not been included in the proforma since new guidelines have not yet been adopted by the State. New guidelines are not expected until summer. Conceivably, $600,000 - $800,000 could be raised, based on last years experience.

4) A fourth potential source of funding is the $1.0 million housing commitment from the Lot A development (not available until 1991) and/or Housing Trust Fund monies, assuming our legal defense is successful. This report recommends accepting

a cash payment from the Lot A developer (assuming that that project goes forward), in lieu of some other as yet undefined program commitment (the current proposal), in order to make this option feasible.

5) The fifth, and only currently available resource is the funding previously set aside for acquisition of property for the Homeless/Public Inebriate Facility budgeted from the Agency portion of the 1989 City of Sacramento Certificates of Participation. While the amount remaining in this account may not be enough to acquire the property, depending on the outcome of the appraisals, we feel that there is enough in the account to allow us to proceed with appraisals and make further adjustments, if necessary, when the appraisals come in. The Homeless/Inebriate Facility acquisition funds, already partially depleted for the library project, will have to be reinstated when the Agency's 1990 Tax Allocation Bond issue is sold later this year. (Note: This action should not preclude some minor expenditures from this fund to, for example, purchase an option of the property for the Homeless/Inebriate Center, should that opportunity present itself. It should further be noted that use of these tax exempt bond funds may preclude some of our future options relative to disposition and financing of the Shasta property. For example, the nine percent tax credit may no longer be possible.

Under the most favorable scenario (i.e., costs are as estimated; award of a maximum State Proposition 84 loan; receipt of a tax credit allocation), the $1,000,000 from the pending Tax Allocation Bond sale (or other local source) would be sufficient to finance the acquisition and rehabilitation. Since none of the first four alternatives are perfected at this time, however, it will therefore be necessary to borrow from the Public Inebriate account to provide financing, at least on an interim basis.

We realize that none of the financing alternatives involving Agency funds are particularly desirable because of the tightness of the Agency budget. To the extent possible, we will attempt to leverage other resources including, but not limited to, State loans (Prop 77/84), tax syndication proceeds (if available/permissible), Lot "A" funds, Rental Rehabilitation Block Grants, other Federal funds, etc., so that as much of our tax increment funds as possible can be used on other housing projects. We will also, if possible, commit as much of the cash flows from projects financed (if any) to other housing projects as well.

To initiate this project, we will need to commission the necessary appraisals and other actions associated with acquisition. These will be funded from the Homeless/Public Inebriate account.

POLICY IMPLICATIONS

The City Council has expressed a policy of preserving SROs in several adopted documents including the Housing Element of the General Plan and the Housing Assistance Plan, Program and Financing Strategy. No new policy is recommended in this regard.

Another policy area is the trade-off between acquiring/ rehabilitating the Shasta, and the subsidy related to that action, versus concentrating public resources on replacing the Shasta with a new SRO. In this regard, several issues should be considered:

- Staff does not have experience with the cost of building a new SRO. If San Diego's experience holds true for Sacramento, the estimated cost will be $27,000 per unit versus a possible Shasta rehabilitation cost at $36,000 per unit. The $27,000 per unit, however, is based on a land cost of $30 per square foot. This is a typical land cost for parcels within the Central City, but not in the Central Business District (CBD) where prices are $55 - $100 a square foot. At $100 land cost per square foot, the per unit cost for new construction would be $31,000.

- The level of neighborhood opposition to locating new SRO's in the Central City is not yet known but is predictable. Finding an acceptable site will take time and has significant non-economic costs (externalities), which we may not be able to overcome. Even if we could find an alternative site, those costs would, in our opinion, more than justify the cost differential between renovating the Shasta and building new in another location.

ENVIRONMENTAL REVIEW

The actions proposed in this report are exempt from environment review per CEQA Section 15378 (6)(3) at this time. (NEPA does not apply). However, any future actions to proceed with acquisition and rehabilitation of the Shasta will be subject to further environmental review on the proposed project.

MBE/WBE

The actions proposed in this report have no immediate MBE/WBE implications. If the decision is made to proceed with rehabilitation, appropriate MBE/WBE goals will apply.

VOTE AND RECOMMENDATION OF COMMISSION

It is anticipated that at its meeting of April 2, 1990, the Sacramento Housing and Redevelopment Commission will adopt a motion recommending that you take the above mentioned action. In the event they fail to do so, you will be advised prior to your April 3, 1990 meeting.

RECOMMENDATION

Staff recommends adoption of the attached resolution which:

1. Directs staff to obtain two appraisals of the Shasta and Argus Hotels.

2. Establishes the average fair market value of the appraisals to be the just compensation.

3. Upon receipt of these appraisals, directs staff to negotiate for purchase of the property in an amount which does not substantially exceed the average of the two appraisals.

4. Authorizes staff to consummate a purchase agreement with the current or any subsequent owner of the Shasta and Argus Hotels.

5. Directs staff to prepare an RFP for a developer/operator to acquire the Shasta and Argus Hotels from the Agency, for rehabilitation and subsequent operation, or to prepare a plan for Housing Authority ownership/operation

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

contingent upon limitations inherent to the source of funds used to subsidize the project.

6. Directs and authorizes staff to solicit and, if that project is consummated, accept the Lot A housing fund payment in cash for use in this program, as opposed to some alternative program as yet undeveloped.

7. Authorizes the use of up to $673,580 in 1989 City Certificates of Participation proceeds, currently committed to the Homeless/Public Inebriate Facility, or uncommitted, to the Shasta acquisition program. (It is understood that should this amount be insufficient, staff will report back with a plan for the balance required, and that minor expenditures on the Homeless/Inebriate Facility property may still be necessary.)

8. Authorizes the Executive Director to amend the Agency budget, as required, to effect this program and to take all other actions necessary to consummate the purchase and renovation of the Shasta including the letting of construction contracts, provision of security measures, issuance of Requests for Proposals, etc.

Respectfully submitted,

ROBERT E. SMITH
Executive Director

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

Contact Person: Thomas V. Lee, 440-1357

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RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF ______________________

JUST COMPENSATION DETERMINATION OF THE SHASTA AND ARGUS HOTELS; LOCATION OF FUNDS

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1: Staff is authorized and directed to obtain appraisals of fair market value from two MAI appraisers of fair market value of the Shasta and Argus Hotels.

Section 2: The just compensation for the properties is the amount specified as the average of the fair market values in such appraisals.

Section 3: Staff is authorized and directed to negotiate and take all actions necessary to consummate a purchase agreement with the current owner, or any subsequent owner, of the Shasta and Argus Hotels at a price which does not substantially exceed the average values set out in such appraisals.

Section 4: Staff is directed to prepare and advertise a request for a developer and operator to acquire, rehabilitate and operate the Shasta and Argus Hotels or to review the possibility of and to prepare a plan for Housing Authority ownership/operation of the project.

Section 5: Staff is directed and authorized to solicit Lot A housing fund payment in cash; and, if that project is consummated, accept the Lot A housing fund payment in cash from the developer for use in this program.

Section 6: Allocation and use of not more than $633,580 in 1989 City Certificates of Participation proceeds currently committed to the Homeless/Public Inebriate facility, or uncommitted, is authorized for the Shasta acquisition program.

FOR CITY CLERK USE ONLY

RESOLUTION NO.: ____________

DATE ADOPTED: ____________

Section 7: The Executive Director is authorized to amend the Agency budget, as required, to effect this program and to take all other actions necessary to consummate the purchase and renovation of the Shasta, including, but not limited to, the letting of construction contracts, provision of security measures and issuances of Requests for Proposals.

CHAIR

ATTEST:

SECRETARY

P:\SHARE\RESO\0150HD

FOR CITY CLERK USE ONLY

RESOLUTION NO.: ______________

DATE ADOPTED: ______________

EXHIBIT A

DATE: March 19, 1990

TO: Sacramento City Council
Honorable Members in Session

FROM: Robert E. Smith, Executive Director

SUBJECT: Shasta Hotel Interim Report

The following report is for your information only.

Pursuant to your directions on February 13, 1990, this interim report summarizes the facts concerning the Shasta, as we know them, identifies a number of options which could be considered by the City Council and lists a number of concerns that we have. Time did not permit an evaluation of the options or a more thorough elaboration of concerns. These will be included in a more complete report, with recommendations, for your agenda of April 3, 1990, as requested.

I. BACKGROUND

What is commonly called the Shasta Hotel is, in reality, two separate structures, (the Shasta and the Argus) which have been operated as one commercial enterprise for an extended period of time. They are connected internally at the second floor. The main entrance is through the Shasta at 1021 Tenth Street. A secondary access is through the Argus on to the alley. (Floor plans are attached as Exhibit A.)

The combined square footage of the underlying parcels is 4,800 square feet. Total square footage of the two buildings is approximately 24,000 square feet. The structures have approximately 4,200 square feet of ground floor commercial space and approximately 80 rooms. (A number of the rooms do not appear to meet minimum size requirements.)

The Shasta Hotel portion is a five-story brick structure, plus a partial basement, which appears to be placed on a concrete foundation. The first floor is dedicated to commercial space and elevator/stair access to the four upper residential floors. The facade has apparent historical significance, but may have been altered in the 1940 or 1950 era, as it appears to have stucco over brick with wooden windows, corbels and trim. This building does not have an egress at the rear of the structure.

The Argus side of the building is a six-story structure with a partial basement. This structure appears to have been added to the Shasta, as the adjoining wall is constructed of 2 x 3 rough-cut studs erected in the platform-type construction. The alley side is made of brick, which could be a veneer over wood frame. The facade appears to be an afterthought, as the brick is of a different vintage. The light-well separating the Shasta and Argus is a frame structure covered with metal siding. The building is located on the corner and has egress possibilities to the alley for both hotels.

Condition - In March, 1989, the City of Sacramento ordered that the Shasta and Argus be vacated and secured immediately because of serious life threatening conditions in the buildings. This followed a nine month effort to get the owners to correct health and safety violations. At this point, a total rehabilitation effort would be necessary to meet code requirements and to generally upgrade the hotel and improve its living condition. Major items would have to include: structural reinforcement, a new elevator, a new roof, improved emergency egress and virtually new plumbing, electrical and heating systems.

Rehabilitation Costs/Subsidy Needs - Sacramento Housing and Redevelopment Agency (SHRA) staff estimates the bare minimum rehabilitation costs to be approximately $1,300,000. It should be emphasized, however, that althoughthis estimate is based on experience with similar types of structures, it was done without the necessary architectural and engineering studies. Seismic reinforcement needs, alone, could alter the estimate substantially. Our experience indicates that it would not be unreasonable to include an additional 50 percent contingency, in rehabilitation jobs of this nature, bringing the total estimate to $2,000,000(+/-).

Although the full cost to acquire and rehabilitate the Shasta for continued SRO use is unknown, a deep subsidy will certainly be required. Market rents for SRO rooms in downtown range between $240 and $260 a month. Using normal under-writing standards and current market interest rates, this amount of income could support a conventional loan of between $520,000 and $660,000.

Demolition/Conversion Issues - Both the Shasta and the Argus are priority historic structures. As such, any permit affecting their exteriors must be reviewed and approved by the Preservation Board of the City. Decisions of the Board are appealable to the City Council.

Demolition permit applications must also be approved by the Preservation Board. The Board has the authority to suspend the application for 180 days while it searches for alternative solutions. This too is appealable to the Council, however, the Council can also extend the permit for an additional 180 days. After the extended period, the permit application must be approved.

Demolition of historic structures is also subject to the processes of the Urban Design Plan. This sets forth a set of rigid procedural requirements before a permit may be issued.

Zoning for the parcel allows a wide range of commercial and office uses. If the proposed building does not exceed 75,000 square feet and meets the parking requirements, a new projec would be subject only to design review. Any request fo excess square footage would require a special permit by the Planning Commission. A request for a parking reduction would require a variance. Parking requirements are one space per 600 square feet of office in excess of 20,000 square feet, and one space per two rooms for a residential hotel. Under current zoning, therefore, this 4,800 square foot parcel could hold a 17-story office building. However, there would have to be 91 parking spaces on site.

Conversion of the structure to another use besides an SRO (e.g., office, transient hotel) also is possible with no planning review other than parking. In such a conversion, the same parking requirements above would pertain, however, the development would get a grandfathering credit for the amount of parking that would have been required for the current use, (40 spaces at 1 space per 2 rooms).

Ownership/Liens - The property is owned by Mr. John P. Murphy. Mr. Murphy had sold it to Patel-Curtiss Development Company in February, 1989, for a reported $1,200,000. He received the property back in January of this year, following a default and Trustee sale. It is being actively marketed for sale and is listed for $1,400,000. Staff has provided information on potentials and constraints to several realtors and prospectiv buyers, upon request.

Principal liens against the property include a first Deed of Trust securing $539,000 indebtedness to Great American Federal Savings Bank and a second Deed of Trust for $100,000 to John and Julie Kim.

Great American has filed a Notice of Default. Approximately $700,000 in principal and unpaid interest is due. A Trustee sale was scheduled for February 26th, however, it was continued for sixty days. Mr. Murphy purchased the extension. Under agreement with the bank, an additional 30-day extension (to May 28, 1990), can be purchased if an additional payment is made by the end of this month.

In preliminary discussions, the bank has expressed a desire to sell its notes, perhaps at a discount. The bank does not seem interested in receiving the property back at this time.

Lawsuit - A suit was filed in July, jointly by the City and Legal Services of Northern California. The latter is acting on behalf of nine previous residents who were relocated when the Shasta was closed. The suit is against Mr. Murphy, Mukesh Patel and Jonas E. Curtiss, who were owners at the time of closure and Eric Almquist, who was the court-appointed receiver at the time. The City's part includes abatement of a public nuisance and recoupment of costs to secure the property and relocate tenants.

The suit will be going to trial within the next several months. A judgement favorable to the City portion would run with the land and would be a liability of any future owner. Specifically, the new owner would have to secure the property and keep it secured pending rehabilitation or conversion of the structure. Security, apparently, has been a problem since the building was vacated. The new owner would also be liable for costs incurred by the City to date. Additionally, if a demolition or conversion is contemplated, the owners would have to comply with the $1,500 per person relocation benefit requirements of Chapter 73 of the City Code.

Tenant Relocation - At the time of closure, thirty rooms were occupied. Tenants were relocated and provided with first month's rent. Twenty-seven of these were provided a monthly rent differential for an additional eleven months. Projected cost to the City through the end of March is $32,000.

Under Chapter 73 of the City Code, tenants of SROs which are converted, demolished or closed are eligible to receive a relocation payment of $1,500 per person from the owner. The City covered relocation costs and is seeking reimbursement through the pending lawsuit. A favorable judgement could result in additional liens against the property.

At the current time, staff is investigating the possibility of extending these benefits for another year, although this would be recommended as a final extension. Housing Authority staff will work to get the remaining recipients into the Section 8 Program, if they are interested, during that period.

II. OPTIONS

The following is a list of options which could be considered:

1. Do nothing and allow the real estate market to dictate the ultimate disposition of the property.

2. Work with the current owner to the extent he agrees to pursue a Proposition 77 loan, and be prepared to provide local financial assistance.

3. Wait to see what happens with the sales and default efforts. Work with any new, hopefully credible party who may acquire the property.

4. Support a credible prospective owner in efforts to purchase the project from the current owner or from the bank, in the event of a Trustee sale. Be prepared to commit Agency funds in advance for such acquisition and subsequent rehabilitation.

5. Acquire the property outright and either rehabilitate and operate the project, or RFP for a developer with the proper qualifications. Acquisition approach alternatives include:

    a. Negotiation with the present owner

    b. Condemnation

    c. Negotiation with the bank, if and when it is taken back

d. Purchase the current note from the bank. Foreclose and take Title after the current Trustee sale extension period expires, if the property has not been sold by then.

6. Investigate regulatory mechanisms to prevent demolition and/or conversion or to force construction of replacement units. Consider:

   a. A moritorium on conversion of SRO's

   b. Adoption of a conversion and replacement ordinance

   c. Utilization of existing zoning, historic preservation and demolition processes to the fullest extent possible to either prevent conversion or to assure replacement units.

III. <u>CONCERNS</u>

The following present some random concerns that should be considered in analyzing the City's position and action related to this project:

1. Acquisition and rehabilitation of the Shasta may not be cost effective. This will depend on the costs of acquiring the property and removing the several liens and the cost of rehabilitation. Both costs are currently unknown but range from $550,000 to $1.4 million for acquisition and at least $1.3 million for rehabilitation. From a strictly economic perspective, a new SRO may be less expensive than the $31,000 per unit it could cost to acquire and rehabilitate the Shasta. New construction, however, raises another set of issues, not the least of which is finding a site acceptable to local community interests. Essentially, it becomes an issue of, "At what prices does it not make sense to rehabilitate the Shasta?"

2. State assistance (Proposition 77) will be an essential ingredient in the financing of any rehabilitation effort. There is no assurance, however, that State funds will be available when this project is ready to go.

3. It is unlikely that any credible party would acquire the property or even take an option without reasonable advance assurance that Agency funds would be available to assist in the acquisition and subsequent rehabilitation. The Agency had intended to provide funding for an SRO program out of its 1990 bond issue. These bonds are not expected to be sold until July, 1990, and have numerous other competing priorities. Rehabilitation of the Shasta could consume the full SRO program funds for 1990.

4. Someone without the desirable financial, managerial and rehabilitation qualifications may acquire the property. In that event, the City would be forced to negotiate with that person or have the entire cycle repeated.

5. The present owner does not have a favorable track record for upgrading and appropriately managing an SRO.

6. At this time, there is a great deal of uncertainty as to the costs of acquisition and rehabilitation.

7. A deep public subsidy will be required for whoever ultimately acquires and proposes to rehabilitate the Shasta. The amount of this subsidy and the source(s) of funds is unknown at this time.

8. Other sites in the Central City are available for new SRO construction, but the "Not In My Back Yard" (NIMBY) syndrome may make the necessary approvals politically difficult.

We will report back in April 1990, with specific recommendations on how to proceed with the Shasta.

ROBERT E. SMITH

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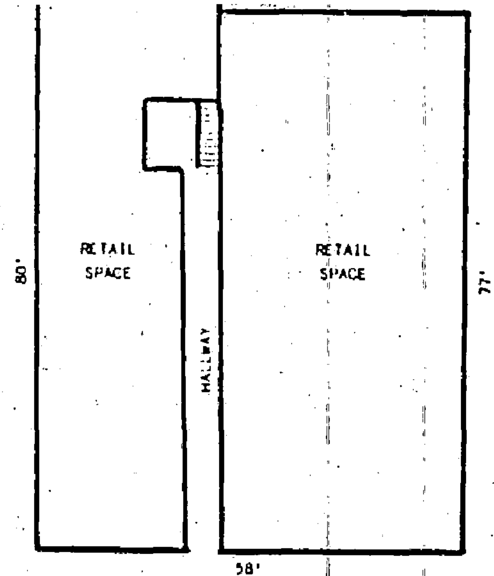
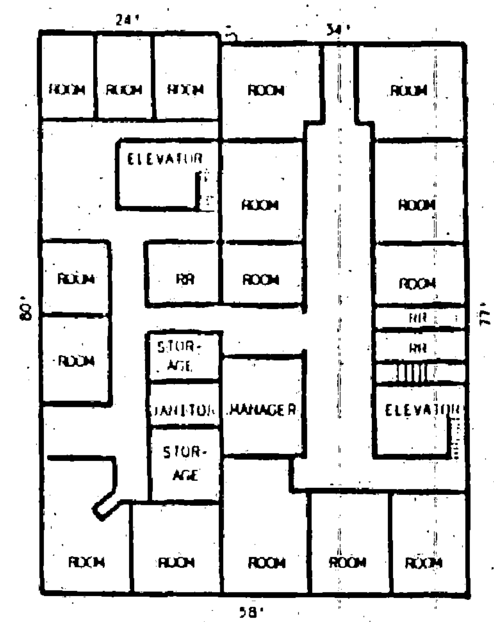
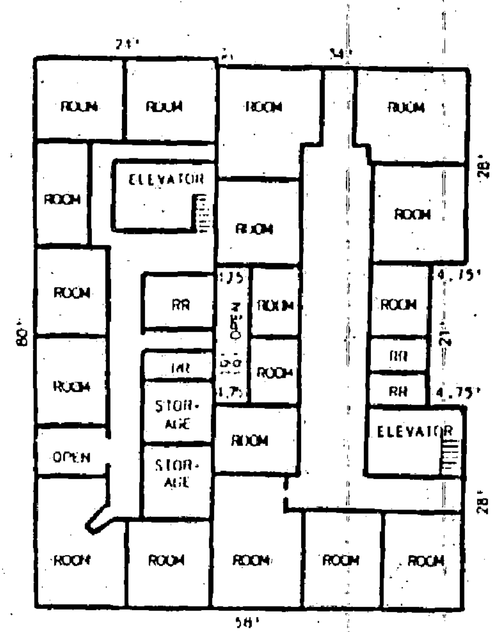


FIRST FLOOR



SECOND FLOOR

THIRD THROUGH SIXTH FLOORS



THIRD THROUGH FIFTH FLOORS

A. PROJECT: SROREHAB: CONVENTIONAL LOAN, SHRA LOAN

LOCATION: Rehabilitation of SRO
SACRAMENTO

DESCRIPTION: Rehabilitation

75 units total
75 units assisted
0 units market rent

0 0% credit

B. PROJECT COSTS			ASSUMPTIONS		
Acquisition:	850000				
Land		$160,000			
Building		690,000			
Hard costs		1,220,670			
Contingency		244,134	Contingency:	20.00%	of hard costs
Soft costs		122,067	Soft Costs:	10.00%	of hard costs
Rent up reserve		51,030	Rent up reserve:	25.00%	of GSI
Finance charges		61,034	Finance charges:	5.00%	of hard costs
Personal Property		75,000	Personal property	$1,000	per unit
Total development costs		$2,623,935			
Development/supervis'n overhead		131,197	Devel't overhead	5.00%	of hard costs
			Developer Equity	10.00%	of total development costs minimum
			Developer Return	10.00%	on equity
Total project costs		$2,755,131			
Syndication costs		0			
			Cap rate	9.00%	
Grand total		$2,755,131			

C. SOURCES OF FUNDS	
Equity	275,513
Conventional loan (1)	652,745
Other loan (2)	1,000,000
SHRA loan (3)	826,874
Gap	(0)
Total	2,755,131
Gross syndic proceeds	0
Net syndication proceeds	0

FINANCING ASSUMPTIONS	
Conventional loan (1)	
Debt service ratio	1.15
Interest rate	9.50%
Term	30
Other loan (2)	
Interest rate	3.00%
Term	30
Deferred = 0	0
Amortized = 1	
Simple interest = 2	
Loan/unit	$13,333
SHRA loan (3)	
Interest	3.00%
Term	30
Deferred = 0	0
Simple interest	
Loan/unit	$11,025

INCOME TAX FACTORS	
Investor tax bracket (Fed. & State)	40.10%
Syndication costs	0.00%
TC/invest rate	1.2
Corp. = 1.2:1	
Indiv. = 1.1:1	
None = 0	
Pay in period	1
Corp. 7 yr	
Indiv. 6 yr	
(If no tax credit, then 1)	

EXHIBIT B

D. USES & INCOME

	NUMBER	RENTS	SUM
SRO units - rents	60	221	13,260
	15	250	3,750
			0
			0
Total	75		17,010
Low income units (tax credi	0		
% of total	0.00%		

INCOME/EXPENSE ASSUMPTIONS

Income inflation	4.00%			
Expense inflation rate	5.00%			
Vacancy rate, residential	5.00%			
Expenses/res. unit/yr	$1,620	$135.00		
Commercial space	4,200 s.f.			
Commercial lease rate	$1.00 s.f.			
Operating costs/comm./yr	10.00%		Land lease rate:	
Other income	$4.00		Yrs 1-3	$0.00 /s.f./mo
Replacement reserve	0.60%		Yrs 5-8	$0.10 /s.f./mo
Property tax	1.10%		Yrs 8-15	ERR /s.f./mo
Prop. tax increase	2.00%			

F. CASH FLOW

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	
Gross sched. res. income	$204,120	$212,285	$220,776	$229,607	$238,792	$248,343	$258,277	$268,608	$279,352	$290,526	$302,147	$314,233	$326,803	$339,
Other res. income	3,600	3,744	3,894	4,050	4,211	4,380	4,555	4,737	4,927	5,124	5,329	5,542	5,764	5,
Gross potential res. inc.	$207,720	$216,029	$224,670	$233,657	$243,003	$252,723	$262,832	$273,345	$284,279	$295,650	$307,476	$319,775	$332,566	$345,
Less: Vacancy	$10,386	$10,801	$11,233	$11,683	$12,150	$12,636	$13,142	$13,667	$14,214	$14,783	$15,374	$15,989	$16,628	$17,
Effective gross res. inc.	$197,334	$205,227	$213,436	$221,974	$230,853	$240,087	$249,690	$259,678	$270,065	$280,868	$292,103	$303,787	$315,938	$328,
Less: Operating expenses	121,500	127,575	133,954	140,651	147,684	155,068	162,822	170,963	179,511	188,486	197,911	207,806	218,197	229,
Property taxes	28,920	30,366	31,884	33,479	35,153	36,910	38,756	40,694	42,728	44,865	47,108	49,463	51,936	54,
Replace. reserve	16,531	16,531	16,531	16,531	16,531	16,531	16,531	16,531	16,531	16,531	16,531	16,531	16,531	16,
Net res. op. income	$30,383	$30,755	$31,067	$31,313	$31,485	$31,578	$31,582	$31,491	$31,295	$30,986	$30,553	$29,986	$29,274	$28,
Gross commercial income	50,400	52,416	54,513	56,693	58,961	61,319	63,772	66,323	68,976	71,735	74,604	77,588	80,692	83,
Less: Operating costs	5,040	5,242	5,451	5,669	5,896	6,132	6,377	6,632	6,898	7,173	7,460	7,759	8,069	8,
Net comm. op. income	$45,360	$47,174	$49,061	$51,024	$53,065	$55,187	$57,395	$59,691	$62,078	$64,561	$67,144	$69,830	$72,623	$75,
Net operating income	$75,743	$77,930	$80,129	$82,337	$84,550	$86,765	$88,977	$91,182	$93,374	$95,547	$97,697	$99,816	$101,897	$103,
Available for debt (max)	$65,864	$67,765	$69,677	$71,597	$73,522	$75,448	$77,371	$79,288	$81,195	$83,085	$84,954	$86,797	$88,606	$90,
Debt service-conventional	$65,864	$65,864	$65,864	$65,864	$65,864	$65,864	$65,864	$65,864	$65,864	$65,864	$65,864	$65,864	$65,864	$65,
Debt serv. payment -loan 2	0	0	0	0	0	0	0	0	0	0	0	0	0	
Debt serv. payment - loan 3	0	0	0	0	0	0	0	0	0	0	0	0	0	
Cash available for other debt or distribution	$9,880	$12,066	$14,265	$16,473	$18,687	$20,902	$23,114	$25,318	$27,510	$29,684	$31,834	$33,952	$36,034	$38,
Developer distribution	$9,880	$12,066	$14,265	$16,473	$18,687	$20,902	$23,114	$25,318	$27,510	$27,551	$27,551	$27,551	$27,551	$27,
Developer rate of return	3.59%	4.38%	5.18%	5.98%	6.78%	7.59%	8.39%	9.19%	9.99%	10.00%	10.00%	10.00%	10.00%	10
Available for other debt	$0	$0	$0	$0	$0	$0	$0	$0	$0	$2,133	$4,282	$6,401	$8,482	$10,
Internal rate of return	-96.91%													

G. PROJECT FEASIBILITY