



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



10

March 20, 1990

Budget and Finance Committee
of the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Deferment of Payment on Capitol Area Development
Authority Debt to Agency for Biele Place

SUMMARY

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

RECOMMENDATION

The staff recommends approval of the attached resolution approving the payment deferment.

Respectfully submitted,

ROBERT E. SMITH
Executive Director

TRANSMITTAL TO COMMITTEE:

JACK R. CRIST
Deputy City Manager

Attachment



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



March 27, 1990

Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Deferment of Payment on CADA Debt to Agency for Biele
Place

SUMMARY

The attached resolution authorizes the Executive Director to grant a partial deferment of loan principal payments from the Capitol Area Development Authority (CADA) to the Sacramento Housing and Redevelopment Agency (Agency) for the Agency's loan to CADA related to Biele Place.

BACKGROUND

On May 10, 1983, the Agency entered into a loan agreement with CADA for \$75,030 in order to assist the development of Biele Place, a very-low income elderly housing project, located on the northeast corner of 15th and O Streets. The State Department of Housing and Community Development (HCD) financed the project with a \$1,025,000 loan through its Rental Housing Construction Program. (HCD additionally assists Biele Place by funding the gap between its operating revenues and expenses.) The Agency's loan to CADA was provided to meet construction expenditures in excess of the loan provided by HCD. The Agency's loan agreement specifies that CADA will amortize the loan in monthly installments at five (5) percent interest over 13 years. The previously approved repayment schedule is included as Exhibit "A." CADA began repayment of the loan in 1985.

When CADA entered into the loan agreement with the Agency, its proforma analysis assumed that CADA would be responsible for property tax payments to the County of Sacramento. Since CADA, in turn, receives tax increment revenues from its project area, the money exacted for property taxes was reimbursed to CADA via that mechanism and put back into the project. Since HCD would fund

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the gap between revenues and expenses after property taxes were paid to the County, the project was receiving benefit of the payment by HCD and reimbursement by the County through the tax increment mechanism. All of this was as identified in the original pro forma and needed to make the project work. However, since the loan agreement was signed, the County has revised its assessment practices in accordance with California State Law such that low-income elderly projects are no longer taxed. Thus, Biele Place's operating deficit has decreased, and the operating reimbursement from HCD has decreased as well. This would not have been a problem had CADA's tax increment revenues not been pledged. However, since the total tax reimbursement was pledged to the Agency debt prior to the change in tax assessment, the project is forced to operate at a deficit.

The cash flow statement attached as Exhibit "B" shows Biele Place's situation. The operating revenue and expenditure numbers presented by CADA are very similar to low-income projects operated by the Agency. The operating deficit incurred by CADA is equal to its loan commitment to the Agency. The loan provided CADA by the Agency is not reimbursable by HCD under HCD guidelines.

HCD only recently completed its audit of CADA. CADA had made claims for the property taxes to HCD and had received reimbursements for them as a part of HCD's annual operating subsidy for the past six years on two of its projects - Biele Place and Sommerset Parkside. As a part of the audit, HCD determined that these claims were not permissible, and informed CADA that it would be required to reimburse HCD a total of \$94,194 for the disallowed claims. Given the circumstance, HCD agreed to a number of concessions to mitigate CADA's burden provided that the Agency agrees to CADA's request. HCD has agreed to the following:

1. To loan, interest free for 25 years, \$50,000 to CADA for construction of a laundry facility at Sommerset Parkside. Construction of an on-site facility would allow CADA to lease for retail use a commercial space it currently dedicates to Sommerset Parkside for laundry use, and will give CADA the cash flow to pay the reimbursement related to Sommerset Parkside (see #2 below).

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2. To accept payments, interest free, over an eight year period for reimbursements due HCD related to Sommerset Parkside Apartments (\$55,791). Payments toward the debt are based upon anticipated income from the commercial space which will now be available for lease due to the relocation of the laundry facility.
3. To defer payment of reimbursements due HCD related to Biele Place until 1998 with no interest charged (\$39,123).

CADA estimates that it will lose approximately \$350,000 in tax increment funds through February, 1998, due to the change in assessment practices described above. CADA has requested that the Agency restructure its loan to CADA for Biele Place in order to assist CADA in overcoming its current financial predicament.

The staff has reviewed CADA's request and Biele Place's operating statement, and agrees that CADA has been placed in a hardship position because of the change in taxing practices. The staff believes the Agency should help CADA through this difficult period. Acting Executive Director Plescia's letter of June, 1989, attached as Exhibit "C," indicates this willingness quite clearly. Subsequent to conveyance of the letter, however, the staff reviewed CADA's cash flow statement and discovered that CADA still charges a substantial management expense against the Biele Place project. Therefore, the staff believes that the loan agreement should be restructured in order to assist CADA's current difficulty, but that ultimately, the Agency should not suffer a loss due to the restructure.

Based upon this information, the staff recommends the following modifications to the loan agreement:

1. CADA will make the loan current through June 1990. No payments have been received since July of 1988. CADA will therefore pay the Agency \$15,066 upon execution of the loan modification agreement.

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2. CADA will suspend all payments until May, 1998, at which time the entire loan will be due; and
3. During the suspension period, interest shall accrue to the principal amount at a rate of 7.5 percent. This means that a total of \$93,250 will be due in 1998. An amortization table is attached as Exhibit "D."

This arrangement will allow the Agency to earn the same interest on the loan it would otherwise earn in its investment pool. It will also allow CADA a brief reprieve from this demand on its cash flow, and an opportunity to restructure its financial status in light of the changes imposed by the State.

FINANCIAL DATA

Under the proposed agreement, CADA would be required to pay \$15,066 immediately to the Agency, which would make its loan current through June, 1990. No further payments would be due until February 1998, at which time a balloon payment of \$93,250 would be due.

POLICY IMPLICATIONS

Providing relief to the Biele Place elderly housing project by allowing CADA to partially defer payment on its Agency loan is consistent with the Agency's policy of assisting the provision of elderly and low-income housing in the downtown.

ENVIRONMENTAL REVIEW

Deferral of the CADA loan for Biele Place does not constitute a project under the provisions of the California Environmental Quality Act and does not, therefore, require an environmental assessment.

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VOTE AND RECOMMENDATION OF COMMISSION

At its meeting of March 19, 1990, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES:

NOES:

ABSENT:

RECOMMENDATION

The staff believes that CADA was placed in a hardship position due to forces beyond its control and should be granted partial relief. The staff, therefore, recommends approval of the attached resolution which authorizes the Executive Director to amend the Agency's agreement with CADA regarding Biele Place in order to suspend payments from July 1990 until February 1998 and to accrue interest to the principal amount at a rate of 7.5 percent.

Respectfully submitted,



ROBERT E. SMITH
Executive Director

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

Contact Person: Wendy Saunders
440-1355

0764C

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF _____

AMENDMENT OF PAYMENT ON CADA DEBT TO AGENCY FOR BIELE'S PLACE

WHEREAS, the Agency entered into a loan agreement for \$75,030 on May 10, 1983 with the Capitol Area Development Authority ("CADA") relating to Biele's Place ("Agreement"); and

WHEREAS, the terms of the Agreement provide that CADA will repay the loan beginning the 10th day of March, 1985 and continuing until the 10th day of February, 1998 at an interest rate of five percent, principal and interest due in monthly installments; and

WHEREAS, the Agency and CADA now desire to amend the Agreement and related documents;

NOW, THEREFORE, BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1: The Executive Director is authorized to amend the Agreement and related promissory note and deed of trust so that the monthly payments shall be suspended from July 1990 until February 1998, at which time the principal amount, and all interest accrued to the principal at annual rate of 7.5 percent, shall be due and payable.

Section 2: As a condition precedent to such amendment, all principal and interest payments currently unpaid to Agency and all principal and interest payments due prior to commencement of the suspension period are now due.

CHAIR

ATTEST:

SECRETARY

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

amort/wang/disk1

AMORTIZATION TABLE Under Proposed Agreement

 Loan amount 75,000.00

Interest - thru 1990 5.00%

Term 13.00

Annual payments \$7,860

Beginning Year	Remaining Years	Payment	Principal balance	Interest payed	Principal payed
			75,000.00		
1985 - 1986	13.00	7,860.72	70,889.28	3,750.00	4,110.72
1986 - 1987	12.00	7,860.72	66,573.02	3,544.46	4,316.26
1987 - 1988	11.00	7,860.72	62,040.96	3,328.65	4,532.07
1988 - 1989	10.00	7,860.72	57,282.28	3,102.05	4,758.67
1989 - 1990	9.00	7,860.72	52,285.68	2,864.11	4,996.61
1990 - 1991	8.00	7,860.72	47,039.24	2,614.28	5,246.44
1991 - 1992	7.00	7,860.72	41,530.48	2,351.96	5,508.76
1992 - 1993	6.00	7,860.72	35,746.29	2,076.52	5,784.20
1993 - 1994	5.00	7,860.72	29,672.88	1,787.31	6,073.41
1994 - 1995	4.00	7,860.72	23,295.81	1,483.64	6,377.08
1995 - 1996	3.00	7,860.72	16,599.88	1,164.79	6,695.93
1996 - 1997	2.00	7,860.72	9,569.15	829.99	7,030.73
1997 - 1998	1.00	7,860.72	2,186.89	478.46	7,382.26
1998 - 1999	0.00	2,296.23	0.00	109.34	2,186.89

BIELE PLACE CASHFLOW ANALYSIS

FY 88/89 (Est.)

INCOME

Rent	\$ 70,236
Operating Subsidy Provided by HCD	<u>7,971</u>
TOTAL INCOME	\$ 78,207

EXPENSESOperating Expenses

Renting Expenses	\$ 250
Management Fee	7,938
Legal	1,000
Audit	2,600
Utilities	12,700
On-Site Manager	15,700
Off-Site Manager	800
Maintenance Crew	2,800
Supplies	900
Maintenance Contracts	6,000
Service Contracts	2,700
Painting & Decorating	6,000
Equipment Purchase	1,500
Insurance	12,000
Taxes	-0-
Reserves	<u>6,019</u>
TOTAL	\$ 78,207
Debt Service to Agency	<u>7,861</u>
Net Profit/Loss	(\$ 7,861)

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SACRAMENTO -
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Exhibit "C"

SEARCHED	_____
SERIALIZED	_____
INDEXED	_____
FILED	_____
WJE	_____
KE	_____
LE	_____
AGST.	_____
PROJ. FILE	_____
INC. FILE	_____

Somerset Parkside
Unit

RECEIVED

JUN 8 1989

CAPITAL AREA DEVELOPMENT AUTH.

June 5, 1989

Mr. Ron Ruie
Capital Area Development Authority
1231 "N" Street, Suite 200
Sacramento, CA 95814

Dear Ron:

I have received your letter of May 25, 1989 regarding your request for deferment of payments and forgiveness of interest on the Agency's loan to CADA for improvements at Biele Place. It is my understanding that, if the Agency agrees to the above, HCD will offer the following assistance:

1. To defer payment of interest due HCD on approximately \$100,000 held in reserve by CADA during the period HCD and CADA were in dispute regarding HCD payments to CADA; and
2. To construct a laundry facility at the Somerset Parkside complex, which will allow CADA to use the space now employed for laundry use as rentable retail space.

The above concessions are acceptable exchanges for the relief requested from the Agency. We would, however, like additional information regarding the value of HCD's participation, namely, the dollar amount of deferred interest due HCD, pursuant to item 1 above, and the cost of the laundry facility that HCD will construct.

Additionally, as we discussed at our meeting on April 24, 1989, the Agency will require that CADA become current on its loan payments to the Agency up to the date that the principal deferral and interest forgiveness are approved.

Please provide the requested information for our review, and inform us of the date of the scheduled HCD hearing.

Sincerely,

Andrew J. Plescia
ANDREW J. PLESZIA
Acting Executive Director

AJP/WS:cmc

ATTACHMENT 1

0593C

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amort/wang/disk1

A M O R T I Z A T I O N T A B L E Under Proposed Agreement

Loan amount	75,000.00
Interest - thru 1990	5.00%
Interest - 1991 - 1998	7.50%
Term	13.00

Annual payments	\$7,860
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Beginning year	Remaining Years	Payment	Principal balance	Interest payed	Principal payed
			75,000.00		
1986	13.00	7,860.72	70,889.28	3,750.00	4,110.72
1987	12.00	7,860.72	66,573.02	3,544.46	4,316.26
1988	11.00	7,860.72	62,040.96	3,328.65	4,532.07
1989	10.00	7,860.72	57,282.28	3,102.05	4,758.67
1990	9.00	7,860.72	52,285.68	2,864.11	4,996.61
1991	8.00	0.00	56,207.10	3,921.43	(3,921.43)
1992	7.00	0.00	60,422.64	4,215.53	(4,215.53)
1993	6.00	0.00	64,954.33	4,531.70	(4,531.70)
1994	5.00	0.00	69,825.91	4,871.57	(4,871.57)
1995	4.00	0.00	75,062.85	5,236.94	(5,236.94)
1996	3.00	0.00	80,692.57	5,629.71	(5,629.71)
1997	2.00	0.00	86,744.51	6,051.94	(6,051.94)
1998	1.00	0.00	93,250.35	6,505.84	(6,505.84)
1999	0.00	93,250.35	0.00	0.00	93,250.00