



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



6

April 26, 1988

Budget & Finance Committee of
the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: 18th & L Streets Development Project - Rescission of
Funding Commitment and Redirection of Funds to Other
Housing Projects

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 funding.

Respectfully submitted,

William H. Edgar
WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:

Jack R. Crist
JACK R. CRIST
Deputy City Manager

Attachment



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



April 25, 1988

Redevelopment Agency of the
City of Sacramento
Sacramento, CA 95814

Honorable Members in Session:

**SUBJECT: 18th and L Streets Development Project -- Rescission of
Funding Commitment and Redirection of Funds to Other
Housing Projects**

SUMMARY

The Redevelopment Agency is requested to terminate its existing relationship with Montross Barber Investments (MBI) relating to the development of multi-family housing on the block bounded by 18th, 19th, K and L Streets. In order to implement this action, staff recommends (1) rescission of the existing funding agreements with MBI; and (2) reallocation of the affected funds to other Agency housing programs, including rehabilitation of downtown SRO units.

BACKGROUND

Developer Failure to Comply with RACS Conditions. In January 1988, citing MBI's failure to perform on the subject project, the Agency directed MBI to comply, by February 12, 1988, with four specific conditions, as follows:

1. Written evidence of a financing commitment for the project from a private lender or other funding source;
2. A written commitment and pledge from MBI specifically identifying the amount that MBI will release as an equity contribution toward the project;

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3. Completion, to the satisfaction of all interested parties (including the Redevelopment Agency), of the conveyance of a certain strip of land on the subject block from MBI to Panattoni, Oates and Massie; and
4. Written agreement from MBI that a minimum of 20 percent (10 units, per previous agreement with Agency staff) of the units in the center parcel development (Windsor Court II) shall be reserved at affordable rents for very-low income households, for a minimum of the first 10 years of project occupancy.

MBI failed to comply with conditions 1, 3 and 4. While MBI did submit a statement from an interested lender (please see Exhibit A), it does not satisfy condition 1 because it is not a financial commitment. Conditions 3 and 4 have not been satisfied. Staff understands that MBI and Panattoni, Oates and Massie are currently in the process of transferring the subject strip. However, such conveyance has not actually taken place. Exhibit B is a detailed history of the Agency staff negotiations with MBI relating to this Project.

Staff has, over the past three months, attempted to negotiate alternative development and financing terms with MBI. Several options were identified and presented to MBI by Agency staff, but MBI rejected all the presented options. Alternative financing plans presented by MBI have been rejected by staff as financially infeasible.

Based on these events, staff concludes that it would be imprudent to continue to reserve housing funds for this proposed project, funding for which has been reserved for 2-1/2 years. Consequently, staff recommends rescission of RA 85-459 (conceptually approving this project) and RA 86-030 (which authorized staff to enter into an Owner Participation Agreement with MBI for the development of a housing project on the subject block).

POLICY IMPLICATIONS

The Agency has no explicit policy governing the amount of time committed funds may be reserved for a given project. To the extent the proposed rescission and transfer of funds establishes guidance for future funding commitments, a new policy is created by adoption of the resolution.

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ENVIRONMENTAL REVIEW

Adoption of the attached resolution has no environmental implications and does not require an environmental report.

FINANCIAL DATA

Adoption of this staff recommendation and adoption of the attached resolution would produce no net difference in Agency funds because the funds previously committed to the MBI project would be released and reallocated to other projects funded out of the Downtown Tax Increment funds. The original \$1.12 Million reserved for the MBI projects was derived from the proceeds of the 1985 sale of \$20.9 million in tax allocation bonds. These funds have been reserved since November 1985. In sum, the proposed action would have no net fiscal impact on the Agency's budget.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of April 25, 1988, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES:

NOES:

ABSENT:

RECOMMENDATION

In order to implement the actions contemplated in this staff report, the staff recommends:

- 1) Rescission of Resolution RA 85-459 (approval-in-concept of a plan to provide financial assistance to the residential development on the subject block);
- 2) Rescission of Resolution RA 86-030, Regulatory Agreements, Owner Participation Agreements and all other agreements with MBI; and

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- 3) Authorizing the Executive Director to transfer to the "Downtown 20 Percent Housing Set-Aside Fund" all Agency funds previously committed to the MBI Project.

Respectfully submitted,

William H. Edgar
WILLIAM H. EDGAR
Executive Director

WHE/HS:cmc

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

Contact Person: Thomas V. Lee, 440-1355

3081J

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO
ON DATE OF

RESCISSION OF PREVIOUS ACTIONS TAKEN BY THE AGENCY
RELATING TO THE 18th AND L STREETS
HOUSING DEVELOPMENT AND TRANSFER OF THE
UNALLOCATED FUNDS TO OTHER
AGENCY HOUSING PROGRAMS

WHEREAS, the Agency has allocated funds to support the development by Montross Barber Investments (MBI) of multi-unit housing on the block bounded by 18th, 19th, K and L Streets; and

WHEREAS, those allocated funds have remained unused for over 2 years because of MBI's failure to perform on a timely basis with the development; and

WHEREAS, Agency staff has attempted to restructure the project's financial arrangements to reach mutually-acceptable terms; and

WHEREAS, such attempts have been unsuccessful.

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

Section 1: Resolutions RA 85-459 and RA 86-030 and any agreements between the Agency and MBI are hereby unconditionally rescinded and rendered void.

Section 2: The Executive Director is authorized to make budget changes which transfer to the "20 Percent Housing Set-Aside Fund" (Downtown Project Area) all Agency funds released by the aforesaid rescissions.

Section 3: The Executive Director is authorized to enter into any agreements deemed necessary by Agency Counsel for the release of any claims which could arise between the Agency and Montross Barber Investments, Inc., related to such rescission.

Section 4: This resolution shall take effect immediately.

CHAIR

ATTEST:

SECRETARY

1100WPP2(118)

**First
Interstate
Bank**

First Interstate Bank
of California
Sacramento Real Estate Center
3406 American River Drive, Suite B
Sacramento, CA 95864
916 978-7373

*g.B.
fy.i*
Steven K. Green
Vice President and
Real Estate Center Manager

February 3, 1988

G. Michael Montross
MONTROSS BARBER INVESTMENTS, INC.
2050 Pioneer Court, Suite 204
San Mateo, CA 94403

RE: Windsor Court

Dear Mike:

In line with our previous meeting regarding the subject project, First Interstate Bank is interested in reviewing the package for the construction financing of the second phase.

The Banks first preference for conventional financing of this project would entail first deed of trust position.

If you have any additional questions regarding the Banks position, feel free to contact the undersigned.

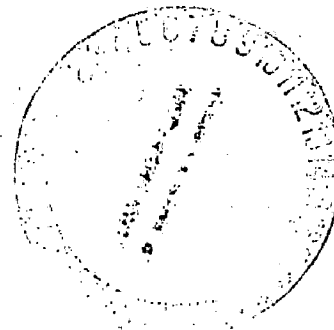
Again, this is not to be construed as a commitment on the Banks part, but only to be viewed as an expression of interest.

Sincerely,



Steven K. Green
Vice President & Manager
Sacramento Real Estate Center

SKG/pkr



HISTORY OF AGENCY STAFF NEGOTIATIONS
WITH MONTROSS BARBER INVESTMENTS

Original Funding Agreement. On June 10, 1986, the Redevelopment Agency adopted Resolution No. TA 86-030, authorizing staff to enter into an Owner Participation Agreement, Loan Agreement, and Regulatory Agreement in connection with the development of a senior housing complex on the northeast corner of 18th and L Streets. Under the approved package, MBI was to receive \$1.12 million in Agency funding (out of available tax-increment funds and tax allocation bond proceeds), consisting of \$1.1 million in a deferred 10-year equity-sharing loan and a \$20,000 grant. (The OPA, however, was never executed by the Agency because the developers never fulfilled their part of the obligation.)

In exchange for the Agency funding, MBI agreed to construct a 52-unit housing complex, and to reserve 20 percent of the units for low-income households (very-low-income [10 percent] low-income [10 percent]). These "reserved units" were to continue to be available to the targeted households at affordable rents for a minimum of 30 years.

The 52-unit development was to be sited on a 15,000 square foot parcel that would be deeded to the Agency by Panattoni, Oates and Massie (POM) Development Company as part of an ancillary rezoning agreement between the City and POM. The subject block, bounded by 18th, 19th, K and L Streets, is one-block east of the easternmost boundary of the Downtown redevelopment project area. (POM's request to rezone the parcel on the northwest corner of 19th and L from R-4 to OB was approved by the City Council on the condition that POM would convey to the Agency the 15,000 square foot parcel immediately west of the proposed office building.) The conveyed parcel was to be developed by the Agency for residential purposes.

Impasse Between MBI and POM Causes Delays. Between June 1986 and March 1987, MBI and POM entered into extended negotiations over the sharing of costs relating to (1) the deck/pad on which the senior housing development would be placed; and (2) the below-ground parking area under the deck/pad. The parties reached an impasse and appealed to the Agency staff for resolution. After meeting with the staff in March, MBI agreed to withdraw the senior housing project, and instead, to proceed with MBI's plans to build a 48-unit elderly housing project on the center parcel (see Exhibit C) of the subject block. MBI had purchased the center parcel in 1985 for future development. MBI also requested that the Agency loan reserved for the senior housing project be transferred to the center parcel development. Agency staff indicated its willingness to provide partial financing for the center parcel MBI housing project so long as certain specified conditions and deadlines were satisfied.

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A brief summary of events regarding the project is attached as Exhibit D. As indicated, this project started back in February of 1985, and today, staff is still attempting to bring this project to conclusion.

Staff Analysis. Staff has identified five bases justifying a rescission of all funding agreements with MBI. First, the subject housing projects with MBI have been in negotiations for over 2-1/2 years, with no signed documents and no clear indication of any firm dates when the project will commence construction. MBI has remained unresponsive to staff's repeated requests for information relating to the source and magnitude of private financing for the project. MBI has also failed to make any clear commitment of its equity contribution to the project.

Second, in addition to the scarcity of reliable financial data relating to the subject projects, MBI has refused to dedicate a minimum of 20 percent of the units for households of very-low income. This refusal constitutes a substantive change from previously-agreed terms. MBI has been aware of this "20 percent requirement" since June 1986.

Third, MBI's proposal to substitute off-site units for the on-site 20 percent very-low income must be refused because of the problematic precedent it would establish. Such substitutions would inevitably lead to disagreements over the "comparability" and acceptability of the substituted units. Furthermore, the creation and enforcement of a meaningful Regulatory Agreement to secure the "reserved" units at multiple locations would be administratively unmanageable.

Fourth, because Agency funds have been tied to the MBI projects, the Agency has been unable to use these funds to provide financial assistance to other housing projects for households of very-low-income. For example, these funds could be used for needed rehabilitation of Single Room Occupancy (SRO) units in the Downtown. However, until the Agency makes a final disposition of the funds previously committed to the stalled MBI project, there is insufficient funding to acquire the SRO units or other very-low-income housing.

Fifth, these staff recommendations are appropriate on a legal basis. As indicated above, although authorized by the Council, the OPA for the original senior housing project was never executed by the Agency Executive Director. This was because MBI and POM were unable to come to agreement over related, but incidental, terms. As a result, POM would not convey the subject parcel to the Agency and, consequently, the Agency was effectively precluded from conveying the subject parcel to MBI, as per the terms of the OPA. Moreover, MBI, in March 1987, repudiated the terms of the originally proposed OPA and offered to substitute development of the center parcel for development of the original parcel. However, MBI has failed to demonstrate any meaningful progress on its responsibilities for closing the center parcel project, and has not agreed to the terms required by the Agency for such substitution. No agreement on the substituted development has been reached and no documents executed.

In sum, staff concludes that the current state of negotiations and discussions with MBI have extended beyond a reasonable term and there is no indication that meaningful resolution will be achieved. Continued delays would only preclude the Agency's using the "committed" funds for other eligible and ready-to-proceed housing projects.

Additionally, the Agency may, by purchasing the drawings from MBI, be able to develop on its own the 52-unit senior housing project originally proposed for the northeast corner of 18th and L Streets.

322.76'

239.60'
107.00'

239.13'
107.00'

PARCEL 1
0.793 ACRES

N 71° 33' 57" W
133.00'

184.82'

322.82'

PARCEL 2
0.420 ACRES

N 18° 30' 00" E
132.40'

PARCEL 3
0.561 ACRES

321.13'
350.07' 0.11
N 10° 28' 05" E

N 18° 30' 00" E
132.60'

133.00'
N 71° 38' 58" W

184.89'

322.89'

N 13° 28' 05" E

402.91'

N 71° 38' 58" W

FND. NAIL

FND. NAIL

L STREET

December 21, 1987
(Updated March 29, 1988)

M E M O R A N D U M

TO: Thomas V. Lee
FROM: Henry Sepulveda
SUBJECT: 18th and L Streets Housing Development Project

You asked for a brief summary of events regarding the 18th and L Project. The summary presented below was initially prepared for Bill Edgar in February 1987. I have updated it for your use.

Summary of Events

February 28, 1985	Planning Commission approval of Panattoni petition to construct office building on southeast corner of subject block. Approval is conditional on Panattoni's conveyance of southwest corner to SHRA, which will immediately convey the parcel to Montross for residential development.
April 23, 1985	City Council adopts Motion of Intent relating to 18th and L Streets development.
May 28, 1985	City Council approval of development of entire block (residential and office use).
June 18, 1985	RACS gives conceptual approval for residential development project at 18th and L Streets (RA-85-459).
September 9, 1985	City Council approves Montross petition to construct 99 residential units on 18/L Streets as a mitigation measure for previous condominium conversions.

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March 19, 1986

Design Review and Preservation Board approves Montross' residential project.

May 28, 1986

RACS authorizes loan of \$1.12 million in redevelopment funds to Montross Barber Investments to build 52-unit Senior Residential project; Authorizes Executive Director to execute agreements.

October 29, 1986

Letter from Andy Plescia to Montross describing project status and indicating Agency's willingness to proceed once the parking garage issue is resolved.

November 12, 1986

Letter from Mogavero to Panattoni requesting that all unresolved issues be resolved at November 17 meeting with Tom McClure (of Panattoni's firm).

November 17, 1986

Panattoni, Mogavero and Sepulveda meet in Panattoni's offices. Differences over parking garage construction costs and obligations are discussed. No resolution.

December 4, 1986

Meeting called by Mogavero. Councilmembers Shore and Chinn and SHRA staff (Plescia, Lee and Sepulveda) invited. Mr. Chinn advises Mogavero that Agency/City not prepared to commit more funding to project and that resolution of impasse is the exclusive responsibility of Montross and Panattoni.

December 16, 1986

Per Councilman Chinn's request, Plescia sends follow-up letter to Panattoni urging parties to settle and indicating Agency's willingness to proceed.

Page Three

December 16, 1986

Letter from Montross to Panattoni proposing to "split the difference" on the parking deck costs (suggested compromise estimate = \$195,000).

December 17, 1986

Montross sends letter to all City Council members detailing the delays on the project and urging that they contact Panattoni to resolve matter.

January 16, 1987

Memorandum from Bill Edgar to City Council and SHRC explaining status of project and staff position (in response to specific inquiries from Council).

January 30, 1987

Sepulveda discussion with Panattoni during which Panattoni indicates he "would consider" paying up to \$175,000 for the garage if Montross agrees. (Montross rejects compromise on February 3.)

February 10, 1987

Montross call to Sepulveda; Indicates he will contact senior managers (City Manager's Office) to persuade Panattoni to proceed with Project.

March 2, 1987

Meeting in Edgar's office with Panattoni, Montross and Mogavero invited. Panattoni states that he will offer no more than \$175,000 toward the parking/deck. Montross indicates he will re-study project feasibility in light of Panattoni's position.

March 4, 1987
(and April 15, 1987)

Montross letters to Bill Edgar in which he proposes to withdraw from the Senior Housing Project and transfer the previously approved funding to a 48-unit complex on the center parcel. MBI's proposal includes 14 "assisted units" (11 low-income units and 3 very-low-income units).

April 20, 1987

Staff response and counterproposal in which Agency proposes a minimum of 20 percent ((10 units) be set-aside for very-low-income households, and a reduction in the loan amount.

May 1, 1987

MBI letter response proposing that 10 percent of the units be set-aside (at \$100 below-the-market-rate), and that Agency loan be \$920,000.

May 4, 1987

Montross meets with Lee and Sepulveda to review proposals. Agrees with Agency-determined rents.

May 11, 1987

Montross signs Agency-proposed terms which include: (1) 10 units reserved for very-low income for the first 10 years; (2) total development cost pegged at \$2.17 million; (3) a loan of \$627,350 at 8 percent interest for 10 years (deferred); (4) a reimbursement up to \$100,000 for incurred expenses on senior housing project (subject to specified conditions).

July 8, 1987

Mogavero delivers to Agency sets of drawings and specifications proposed for the Senior Housing Project (in accordance with reimbursement conditions in 5/11/87 Agreement).

July 24, 1987

Agency letter to MBI that: (1) acknowledges receipt of Mogavero documents; (2) indicates, subject to specified deadlines and conditions, Agency's willingness to reimburse up to \$88,000 (based on staff evaluation of the conditions of the submitted documents); and (3) specifies the deadlines and conditions governing Agency funding for the 48-unit center parcel housing project (Deadline-- October 1, 1987).

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October 1, 1987 Deadline for Agency conditions for funding for center-parcel development. MBI fails to comply with conditions.

November 4, 1987 Letter from Montross to Bill Edgar proposing to revise the terms of the 5/11/87 Agreement. Revised proposal: reduces from ten to nine the number of very-low-income units; reports higher development costs (was \$2.17 million, now \$2.5 million).

November 12, 1987 Agency staff response to MBI's 11/4/87 letter. Staff rejects MBI proposed revisions and requests detailed financial information explaining the higher development costs.

November 16, 1987 In response to request from staff, MBI sends revised proforma. Documents now show development costs of \$3.1 million.

November 23, 1987 Montross letter to Councilman Serna proposing another revision in terms for Agency loan to project (excludes very-low-income units).

December 8, 1987 Agency staff prepares staff report recommending rescission of all agreements with MBI relating to the housing projects on the subject block.

December 9, 1987 MBI's letter to Councilman Serna is referred to Agency staff for response.

December 18, 1987 Montross contacts Bill Edgar to discuss state of project.

January 4, 1988 Sacramento Housing and Redevelopment Commission hears Staff Report on project status. Commission votes to recommend to Council that MBI be ordered to comply with specified conditions within 30 days or Agency will withdraw funding support.

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January 12, 1988

RACS hears Commission recommendations, defers action on recommendation, and directs Agency staff to re-enter negotiations with MBI to explore alternative scenario.

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