



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



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May 7, 1991

Budget & Finance Committee of
the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Status of the Shasta Hotel Project - Recommendation for
Allocation of Funds for Predevelopment Costs


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 allocations.

Respectfully submitted,

for 

JOHN E. MOLLOY
Acting Executive Director

TRANSMITTAL TO COMMITTEE:


JACK R. CRIST
Deputy City Manager



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



May 14, 1991

Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session

SUBJECT: Status of the Shasta Hotel Project; Recommendation
for Allocation of Funds for Predevelopment Costs

SUMMARY

This report provides an update on the Shasta Hotel project and requests authorization and funding for predevelopment expenses.

BACKGROUND

On July 24, 1990, the Redevelopment Agency of the City of Sacramento ("Agency") authorized the Executive Director to negotiate, and take those actions necessary to consummate, the purchase of the Shasta Hotel through the eminent domain process. The Executive Director was authorized to amend the Agency budget, as required, and to take all other actions necessary to consummate the renovation of the Shasta. The resolution authorized staff to negotiate and apply to all potential sources of public and private project financing. One million, one hundred thousand dollars (\$1,100,000) in downtown tax increment funds was allocated to be used for acquisition of the Shasta, costs related to acquisition, and consultant fees. (In accordance with the financial discussion in that staff report, these funds were replaced with 1990 Tax Allocation Bond (TAB) proceeds when the bond was issued at the end of last year.) An additional \$1,020,000 was committed to be used as short-term project financing, if necessary to secure an allocation of low-income tax credits for the project.

The following discussion is a project update on eminent domain proceedings, construction issues, and ownership/operation issues.

(1)

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The project's financing is discussed in the "Financial Data" section and in Attachments A and B.

Eminent Domain Process

Following the Agency's July 24, 1990 acquisition decision and adoption of a resolution of just compensation, the Agency's attorney posted the \$960,000 appraisal value with the courts. All parties who had an interest in the property of record at the time of commencement of proceedings were served papers notifying them of the Agency's action. A trial date has not been established; it is estimated that the date will be set for September or October of this year.

Progress on Construction Issues

Progress on construction issues has been as follows:

- * In August 1990, the Agency issued a Request for Qualifications (RFQ) for architects. On September 17, 1990, the Agency received 18 proposals from architects responding to the RFQ. This list was reduced to five top firms, with the final selection being Voinovich of California. This firm is presently working towards developing preliminary architectural plans.
- * The preliminary plans, together with cost data, are scheduled for completion in June.
- * Staff expects to present the preliminary plan information and plans in a report to the Agency at the end of July. At this time, the Agency can make the final decision as to whether or not to proceed with the project.
- * If the Agency decides to proceed, the architect will prepare the construction documents. The project would then be ready to bid approximately in November 1991.
- * With this projection, ground breaking would occur around January 1992.
- * Staff has had the building boarded-up and monitors it to prevent break-ins.

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- * A crew was contracted to remove carpeting and clear out debris.
- * The building has been analyzed for asbestos. All asbestos will have to be removed prior to commencement of construction. Results of the initial testing indicated the asbestos to be limited to the floor tile, glue, flues, hot water line wrappings and ceiling area in the bar. The removal cost estimate on this original finding was \$46,000. Since then, more asbestos was discovered as a result of debris removal and other activities. We estimate that removal of this additional asbestos will cost another \$34,000 in addition to the cost of the first finding.

Ownership and Operation

In the July 1990 report, staff recommended that the Shasta project be sold to Sacramento Housing Development Corporation (SHDC), the Agency's wholly-controlled non-profit corporation, following acquisition by the Agency. Staff is intending to apply for Low Income Housing Tax Credits, which if allocated would be sold to a limited partnership. In order to receive an exemption of property taxes on the project, the general partner of the limited partnership must be a tax-exempt 501(c)(3) non-profit corporation. Initial consultations with legal counsel for the syndication effort, Goldfarb and Lipman, indicate that it would be best for the general partner to be a 501(c)(3) corporation separate from SHDC. Staff will report back fully on this subject at a later date in conjunction with a request for approval to syndicate, (assuming approval of an allocation of tax credits by the State).

Regardless of legal ownership, the Shasta will be managed by the City Housing Authority. This will assure careful and intensive management of the project. In order to benefit as well from the considerable outside expertise available on management and operation of Residential Hotels, staff also proposes that the Authority contract for a period of time with a private management company.

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FINANCIAL DATA

The July 24, 1990 report to the Agency estimated total development costs for the acquisition and rehabilitation of the Shasta to be roughly \$4,200,000. This estimate was derived using a preliminary architectural and engineering study obtained from the firm Dela-M solely for the purpose of making the decision whether or not to pursue the project. Staff is still using this budget as a guideline; firmer numbers will not be known until Voinovich California's plans and costing are completed and the final price for acquisition is determined through the eminent domain process.

The July 1990 report outlined three different financing scenarios for the project, with various combinations of tax increment, state, tax credit and conventional financing. The status of the project's financing commitments is discussed as Attachment A.

Essentially, the project has a \$2,000,000 deferred loan from the State, received in November 1991, and a \$1,100,000 commitment of 1990 Tax Allocation Bond proceeds from the Agency. Staff recommends that the Agency authorize the Executive Director to enter into all documents necessary to secure the State loan. Staff is also pursuing a conventional loan through the Federal Home Loan Bank Board's Affordable Housing Program, as well as Low Income Housing Tax Credits.

The \$1,100,000 in downtown tax increment funds (later taken from 1990 TAB funds) was allocated to the project at the July 1990 meeting. The funds were designated for use for acquisition of the Shasta, costs related to acquisition, and consultant fees. Nine hundred and sixty thousand (\$960,000) of the \$1,100,000 was used to post funds with the court for acquisition, leaving \$140,000 for predevelopment costs.

Attachment B lists the most current estimate of project predevelopment and soft costs. It is expected that a total of \$443,800 will be needed for various predevelopment activities and soft costs (e.g. preliminary architectural plans, asbestos testing and removal, financing costs, legal costs and management technical support costs). The original budget of \$4,200,000 estimated \$495,000 for such costs, so the current predevelopment cost estimates are within budget.

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Since only \$140,000 has currently been allocated for predevelopment and staff costs, staff recommends that the Agency amend its budget to transfer \$303,800 from general Residential Hotel funds to the Shasta Hotel project. Staff also recommends that the Agency authorize the Executive Director to solicit and enter into contracts for reasonable and necessary acquisition and project development expenses in a total amount not to exceed \$1,403,800 (i.e. acquisition costs of \$960,000 and predevelopment costs of \$443,800). These additional funds will allow predevelopment activities to progress until staff reports back with preliminary plans and costs and the Agency makes its final decision as to whether the project should proceed. The continued funding and progression of predevelopment activities is important in order to meet financing application deadlines. If Low Income Housing Tax Credits are allocated to the project and the project is syndicated, the possibility exists that some of the syndication proceeds could go towards payback of the \$303,800 additional Agency funds.

The Agency agreed, for a variety of reasons, to pursue the project under the condition that acquisition and rehabilitation costs did not exceed 150% of new construction costs. We do not at this time expect the project budget to exceed this policy guideline.

With respect to Low Income Housing Tax Credits, a financial consultant, California Housing Partnership Corporation, and the law firm of Goldfarb and Lipman have been contracted to assist staff in preparation of the application for tax credits and subsequent syndication, if credits are allocated. The financial consultant will also assist in the application for financing through the Affordable Housing Program and both firms will assist in coordinating the varied, complicated and sometimes conflicting requirements of the project's several financing sources.

MBE/WBE EFFORTS

The Agency's MBE/WBE policy will apply to the contracts proposed in this report.

ENVIRONMENTAL REVIEW

The proposed action is exempt from environmental review per CEQA Guidelines Section 15378(b)(3); NEPA does not apply.

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POLICY IMPLICATIONS

The actions proposed in this report implement the Agency's July 24, 1990 directive to acquire and rehabilitate the Shasta Hotel.

VOTE AND RECOMMENDATION OF COMMISSION

At its meeting of May 1, 1991 the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES: Cespedes, Diepenbrock, Pernel, Simon, Simpson, Williams,
Wooley, Yew, Strong
NOES: None
NOT PRESENT TO VOTE: Amundson
ABSENT: Moose

RECOMMENDATION

Staff recommends adoption of the attached resolution which:

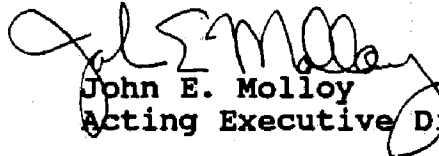
- 1) Amends the Budget to transfer \$303,800 from Residential Hotel funds to the Shasta Hotel project.
- 2) Authorizes the Executive Director to solicit and enter into contracts for reasonable and necessary acquisition and project predevelopment expenses in a total amount not to exceed \$1,403,800.
- 3) Authorizes the Executive Director to enter into documents for a loan for the Shasta Hotel project from the State Department of Housing and Community Development under the California

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Housing Rehabilitation Program in the principal amount of approximately \$2,000,000 at an interest rate of not more than 3% for a loan term of not more than fifty years.

Respectfully submitted,


John E. Molloy
Acting 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 _____

ACQUISITION AND PREDEVELOPMENT BUDGET FOR THE SHASTA HOTEL; CONTRACT AUTHORIZATION; LOAN ACCEPTANCE

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

Section 1: The Budget is amended to transfer \$303,800 from Residential Hotel funds to the Shasta Hotel Project.

Section 2: The Executive Director is authorized to solicit and enter into contracts for reasonable and necessary acquisition and project predevelopment expenses in a total amount not to exceed \$1,403,800.

Section 3: The Executive Director is authorized to enter into documents for a loan for the Shasta Hotel Project from the State Department of Housing and Community Development under the California Housing Rehabilitation Program in the principal amount of approximately \$2,000,000 at an interest rate of not more than 3% for a loan term of not more than fifty years.

CHAIR

ATTEST:

SECRETARY

P:\SHARE\RESO\ADDSTAFF

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

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ATTACHMENT A

Project Financing Status

The following discusses the status of the various prospective sources of financing for the acquisition and rehabilitation of the Shasta Hotel:

a) **State loan:** A \$2,000,000 conditional loan commitment was obtained in November 1990 from the State Department of Housing and Community Development under the California Housing Rehabilitation Program (CHRP). Staff recommends that the Agency authorize the Executive Director to enter into documents necessary to secure the State loan.

The loan will have a term of 50 years and will carry an interest rate of 3%. An eight-year deferral of interest was requested from and granted by the State. The loan will be used for both construction and permanent financing. Under the State program regulations, the loan must be closed within a year of commitment (i.e. November 1991). An extension will be requested for this project since it is not anticipated that construction will commence until January 1992. Initial conversations with the State indicate that an extension will be granted.

b) **Agency funds:** As is discussed in the attached report, an additional \$303,800 will be needed for predevelopment and soft costs. Staff proposes that the Agency budget be amended to transfer \$303,800 from general Residential Hotel funds to the Shasta Hotel project. The overall budget for acquisition and predevelopment/soft costs would then be \$1,403,800.

In addition, the July 24, 1990 resolution committed not more than \$1,020,000 in downtown tax increment funds (or, 1990 TAB funds, as the case may be), to the project to be used as short-term project financing, if necessary to secure an allocation of low-income housing tax credits. This commitment was given because of the requirement that 50% of project financing be secured by the time an application for credits is submitted. Because a \$2,000,000 commitment from the State has been obtained, and \$1,100,000 of TAB funds has already been allocated to the project, this additional \$1,020,000 commitment of TAB funds will not be needed for the tax credit application.

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c) **Conventional loan:** Below-market funds are available through the Federal Home Loan Bank Board's Affordable Housing Program. The funds can be accessed through conventional lenders or through the Savings Association Mortgage Company (SAMCO), a consortium of conventional lenders committed to financing affordable housing projects. Staff has contacted several lenders about the Shasta project and has received favorable feedback on the likelihood that the project would receive such a loan. Application currently is expected to be made in September or October of this year.

d) **Equity from low-income housing tax credits:** Staff expects to submit an application in August 1991 to receive an allocation of low-income housing tax credits from the State Tax Credit Allocation Committee. Submittal dates may change on the basis of timing decisions by the Committee. Although the Shasta project appears to have a reasonable chance of receiving an allocation, it is by no means certain. An estimated \$1,500,000 in equity could be generated by syndication of the credits. In general, it is expected that the funds would go towards paying down debt, decreasing rents, and/or funding services to the project.

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ATTACHMENT B

Estimated Predevelopment Predevelopment and Soft Costs

The following list of estimated predevelopment/soft costs for the Shasta Hotel project is based on current knowledge only and is not intended to be exhaustive:

<u>Use</u>	<u>Cost</u>	<u>Contracted or Expended</u>
Debris removal	\$25,000	x
Board-up	2,000	x
Asbestos testing	6,100	x
Asbestos removal	80,000	
Architect/engineer:		
Dela-M	8,200	x
Voinovich (initial costs applicable to final total fee)	50,000	x
Soils and coring tests	20,000	x
Permit fees	25,000	
Appraisals	20,000	x (part)
Financial consultant	25,000	x
Legal services:		
Eminent domain	25,000	x
Tax credit syndication	60,000	
Management consultant	20,000	
Application fees:		
TCAC	20,000	
SAMCO	10,000	
Title & closing costs	15,000	
ALTA survey	7,000	
Construction interest	22,500	
Miscellaneous (contract advertisements, etc.)	3,000	x (part)
	----- \$443,800 =====	