



**Sacramento
Housing &
Redevelopment
Agency**

REPORT TO REDEVELOPMENT AGENCY

City of Sacramento

915 I Street, Sacramento, CA 95814-2671

www.CityofSacramento.org

Staff Report

September 16, 2008

Honorable Chair and Members of the Redevelopment Agency

Title: Budget Amendment Associated with Del Paso Nuevo Current and Future Phases

Location/Council District: Del Paso Heights Redevelopment Area, (District 2)

Recommendation: Adopt a **Redevelopment Agency Resolution 1**) authorizing a budget amendment of up to \$6,000,000 from Del Paso Heights tax increment and bond funds for all actions related to current and future phases for the project; 2) amending the Agency budget to transfer to the projects: a) \$1,733,500 from Del Paso Heights low/moderate tax increment funds; b) \$420,000 from 2006 Del Paso Heights Taxable Bond Funds c) \$2,226,406 from 2006 Tax Exempt Bond Funds; d) \$467,310 from 2003 Tax Exempt Bond Funds; and e) \$1,152,784 from Del Paso Heights tax increment funds.

Contact: Lisa Bates, Deputy Executive Director, (916) 440-1316, Christine Weichert, Assistant Director, Housing and Community Development (916) 440-1353

Presenter: Christine Weichert, Assistant Director

Department: Sacramento Housing and Redevelopment Agency

Description/Analysis

Issue: Del Paso Nuevo is a 154-acre redevelopment master plan allowing for the construction of 300 homes (Attachment 1) with over 50 percent of the homes available to low-income homebuyers. Three phases of Del Paso Nuevo are complete, including the development of 77 single-family homes, significant roadway and infrastructure improvements, and the addition of two community parks.

In 2005, the Agency executed Disposition and Development Agreements (DDAs) with two homebuilders for Phases IV and V of Del Paso Nuevo. Phase IV included the transfer of approximately eight acres of undeveloped land to The Griffin Homebuilding Group for the development of 81 single-family homes. To

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date, the infrastructure and four model homes are complete; 10 additional housing units will be completed this month.

Phase V included the transfer of approximately 13.5 acres of undeveloped land to Nuevo Partners, LLC (an affiliate of New Faze Development, Inc.) to develop 95 single family homes. To date, the Phase V developer has completed the infrastructure and four model homes; 11 more homes were underway when production halted in October 2007. In both phase IV and V, the land was transferred to the developer with the agreement that the Agency would be repaid \$10,000 per home each time a completed residence was sold.

Discussions between the developer of Phase V, lender and the Agency regarding the lack of progress, have been ongoing, but have proven unsuccessful. In April, the lender, First Northern Bank, filed a Notice of Default and the development is scheduled for a foreclosure sale on September 18, 2008. The reason for this action by the lender is the current land value is less than the outstanding loan balance.

The Agency recommends taking proactive steps to acquire the land in the foreclosure sale process to ensure completion of the unfinished units and to protect the supply of affordable homes in the redevelopment area. Phase V is a crucial part of the Del Paso Nuevo project. When finished, this phase will provide more than 30 percent of the single family homes in Del Paso Nuevo.

The Agency has invested substantial resources to improving Del Paso Heights and this project is critical to the area's redevelopment. The United States Housing and Urban Development Agency (HUD) committed over \$10 million in loan guarantees and grants to the development of the Project. Completion of this phase will ensure that the Agency's obligation to HUD to provide 300 new homes is met. The proposed funds are necessary to acquire the land in Phase V and to pay insurance, security, maintenance, and consultant costs associated with this phase and, given the uncertainty of the housing market, future phases of Del Paso Nuevo.

If SHRA's bid is successful, the next step is to identify a developer to finish and sell the 15 partially or fully finished units. The construction schedule for the remaining 80 lots will proceed as quickly as the market demand permits.

If the bid is not successful, the affordability regulation of the units will be lost. Agency staff will contact the future property owner and encourage affordable housing for Del Paso Nuevo, but a successful outcome cannot be guaranteed. Additionally, completion of the 11 partially completed homes may be delayed, and could be built in a more piece meal approach.

Policy Considerations: The actions recommended in this report are consistent with the Del Paso Heights Redevelopment Plan and the Del Paso Heights Implementation Plan and meet the following implementation plan goal: market and promote homebuyer programs while developing attractive new housing

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opportunities. This report is also consistent with the City's Strategic Plan goal to enhance and preserve the neighborhoods.

Environmental Considerations:

California Environmental Quality Act (CEQA): The proposed actions are in furtherance of the Del Paso Nuevo Project, which was analyzed in accordance with CEQA and for which a Negative Declaration was adopted. Per CEQA Guidelines Sections 15162 and 15163, no further environmental documentation is required at this time.

Sustainability Considerations: The Project has been reviewed for consistency with the goals, policies and targets of the Sustainability Master Plan and the 2030 General Plan. If approved, the contents of this report will advance the following goals, policies and targets: the project supports Focus Area number six – Urban Design, Land Use, Green Building and Transportation, by reducing dependence on private automobiles. This is due to the fact that the property is located in close proximity to Regional Transit bus stops and by providing housing choices near jobs as the project is within city limits.

Other: A Finding of No Significant Impact was made pursuant to the National Environmental Policy Act (NEPA) for the Del Paso Nuevo Project, and no further action is required for the proposed actions.

Committee/Commission Action: The Del Paso Heights Redevelopment Advisory Committee (RAC) and the Sacramento Housing and Redevelopment Commission have been notified of this recommendation.

Rationale for Recommendation: This development adds more than 300 new homes to a formerly underdeveloped neighborhood in Del Paso Heights. This action not only eliminates blight but ensures that the homes will be built in a timely manner and that a majority of the homes in the project are affordable. Additionally, the conditions of the HUD award can still be met with this action.

Financial Considerations: Given the uncertain market, the Agency is requesting sufficient funding to respond to current and future phases as needed. The recommended budget of \$6,000,000 covers all aspects related to acquisition, maintenance, and sale of property in Del Paso Nuevo project. Funds for these activities will be paid with Del Paso Heights housing and non-housing tax increment flow and bond funds.

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M/WBE Considerations: The items discussed in this report have no M/WBE impact; therefore, M/WBE considerations do not apply.

Respectfully Submitted by: 
LA SHELLE DOZIER
Interim Executive Director

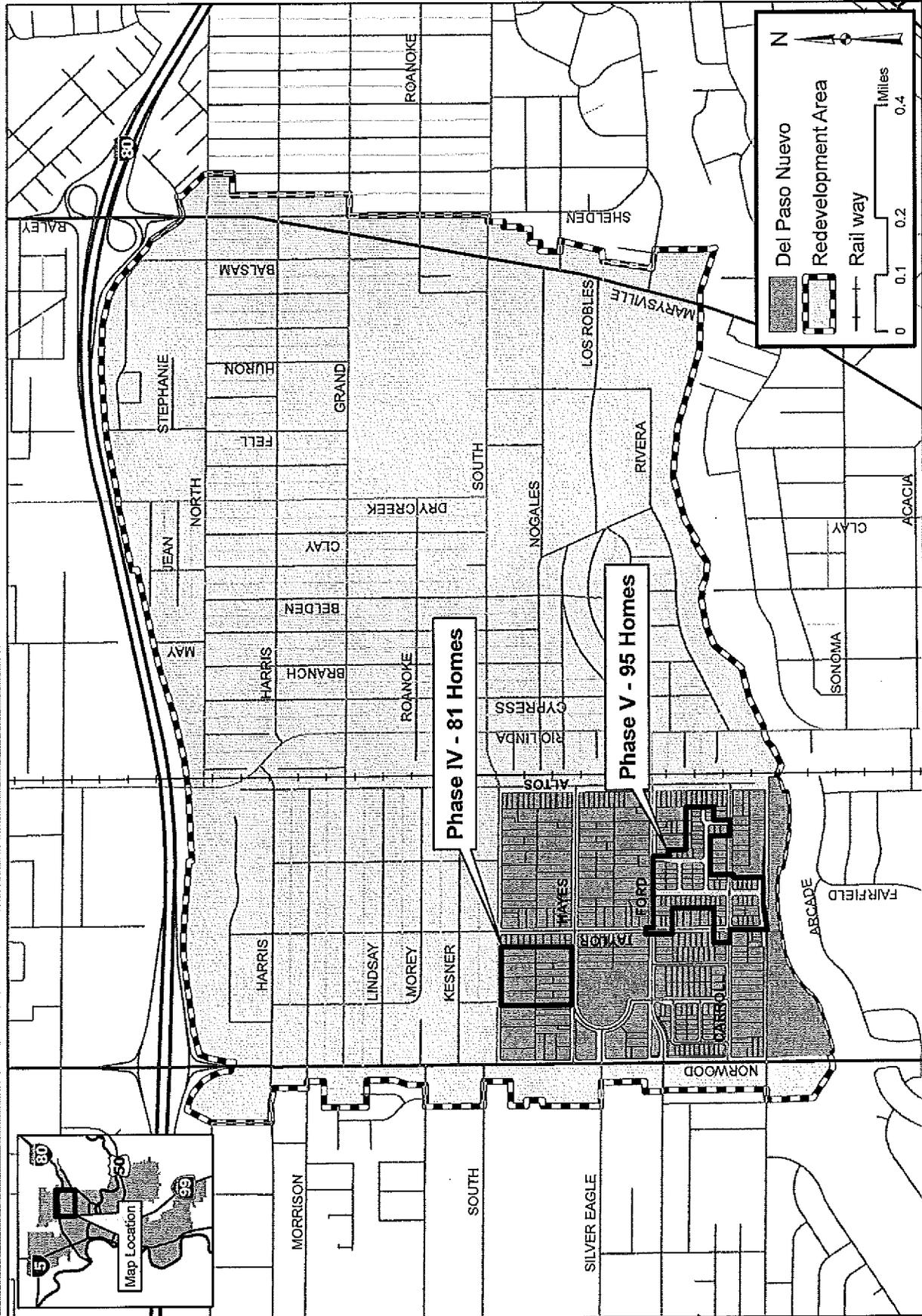
Recommendation Approved:


for RAY KERRIDGE
City Manager

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Del Paso Heights Redevelopment Area



Background

The Del Paso Nuevo design reflects new urban planning principles intended to create sustainable, ethnically diverse, mixed-income neighborhoods that include supportive civic and commercial land uses. HUD has funded more than \$10 million in loan guarantees and grants to this Project. To date, three of six phases are complete, including the development of 77 single-family homes and two community parks. Phases IV has commenced construction of 81 new homes. Phase VI is in the final stages of property acquisition and the Agency is prepared to submit the tentative subdivision map for an additional 70 new homes.

Phase V of Del Paso Nuevo, SHRA acquired and transferred 13.5 acres underdeveloped parcels to Nuevo Partners, LLC, (developer) for the subsequent subdivision and development of 95 single-family homes. The tentative subdivision map approval was received in February 2006. To date, all streets and related infrastructure improvements have been completed, as well as the construction of four model homes.

In 2007, production began on eleven additional homes. Eight homes have completed foundation work; the other three have foundations and have been framed. Construction halted in October when the lender, First Northern Bank, stopped issuing funds for continued construction. As the appraised value of single family homes decreased, the project no longer met the original loan underwriting guidelines. The bank required a larger equity injection from the developer.

Negotiations between the lender, the developer and the Agency to resolve the funding crisis have been ongoing. First Northern and the developer satisfactorily resolved funding issues related to two other smaller housing projects. To date, no satisfactory agreement has been reached between the lender and Nuevo Partners for this project.

Subsequently, a Notice of Default was filed by the lender which permits foreclosure and sale of Phase V. The sale date is scheduled for September 18, 2008.

Curing the Trustee Sale will allow the Agency to preserve the affordable homes and to ensure that development of the Del Paso Nuevo Project continues to move forward. This action facilitates the goal of selling the four model homes, identify another developer to complete construction and sell 11 additional homes already started. Use of these funds will be allocated to securing a developer, completing construction, paying for legal fees, holding costs, consultants, insurance and expenses related to this phase and future phases of Del Paso Nuevo.

RESOLUTION NO. 2008 –

Adopted by the Redevelopment Agency of the City of Sacramento

ON DATE OF

AUTHORIZING PURCHASE OF LAND AND IMPROVEMENTS IN DEL PASO NUEVO AND RELATED AMENDMENT OF 2008 AGENCY BUDGET

BACKGROUND

- A. Acquisition of land in furtherance of the Del Paso Nuevo Project is part of a previously approved program for the elimination of blight, is consistent with the Del Paso Heights Redevelopment Plan and the Del Paso Heights Implementation Plan and meets the following implementation plan goal: To market and promote homebuyer and rehabilitation programs while developing attractive new housing opportunities. This action is also consistent with the City's Strategic Plan goal to enhance and preserve the neighborhoods.
- B. The proposed property acquisitions are in furtherance of the Del Paso Nuevo Project, which was analyzed in accordance with CEQA, for which a Mitigated Negative Declaration was adopted on March 10, 1998 and a subsequent Mitigated Negative Declaration was adopted on June 6, 2000. The Agency further determined on December 15, 2005 that the potential impacts of Phase IV and V would be less than significant. The proposed actions will not cause additional environmental impacts and there are no changes in circumstances or new environmental issues from those identified and analyzed in the previous environmental documentation. Therefore, pursuant to CEQA Guidelines Sections 15162 and 15163, no further environmental documentation is required at this time. A Finding of No Significant Impact was made pursuant to the National Environmental Policy Act (NEPA) for the Del Paso Nuevo Project, and no further action is required for the proposed actions.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO RESOLVES AS FOLLOWS:

Section 1. The foregoing recitals are determined to be true and correct and are hereby adopted.

Section 2. The Agency Budget is hereby amended to transfer the following to the Del Paso Nuevo Project:

- o \$1,733,500 from Del Paso Heights low/moderate tax increment funds

- \$420,000 from 2006 Del Paso Heights Taxable Bond Funds
- \$2,226,406 from 2006 Tax Exempt Bond Funds
- \$467,310 from 2003 Tax Exempt Bond Funds
- \$1,152,784 from Del Paso Heights tax increment funds

Section 3. The Executive Director is authorized to purchase land within the areas previously adopted as Del Paso Nuevo Phase IV and V and to carry out all actions reasonably necessary to accomplish the purchase and thereafter maintain and secure the acquired property.

