



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



9

February 23, 1988

Budget & Finance Committee of
the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Extension of Schedule of Performance Under Disposition
and Development Agreement and Authorization to Make
\$48,000 Loan from Alkali Flat Tax Increment Funds - 530
10th Street

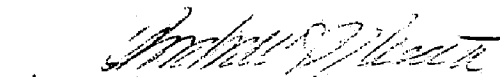
SUMMARY

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 extension and funding.

Respectfully submitted,


WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:


JACK R. CRIST
Deputy City Manager

Attachment

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**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



February 22, 1988

Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members In Session:

SUBJECT: Extension of Schedule of Performance Under Disposition
and Development Agreement and Authorization to Make
\$48,000 Loan from Alkali Flat Tax Increment Funds -
530 10th Street - Booher et al

SUMMARY

The Disposition and Development Agreement (DDA) between the Agency and P. Bruce Booher, Margaret A. Booher, B. Jayne Little and Mark S. Little, General Partners (Developer) for property located at 530 10th Street, is currently in default, based upon the "Schedule of Performance" of the attached DDA. (See Attachment E). The developer has requested an extension of time until October 31, 1988 and additionally has requested a low interest loan from local tax increment funds, in order to complete this project.

BACKGROUND

On December 2, 1986, by Redevelopment Agency Resolution 86-077, a Disposition and Development Agreement was entered into by the above referenced Developer. As you may recall this property was previously in private ownership under an Agency rehabilitation contract (the Barlow projet). As a consequence of unusual difficulties in completing the rehabilitation of this project and the death of Mr. Barlow, the Agency assumed ownership of the project. The project was subsequently offered for acquisition and rehabilitation under a Request for Proposal (RFP) and Mr. Booher was selected as the developer. Under the terms of the current DDA, the project was to have been completed by July 6, 1987, six months after the close of escrow. NOTE: Staff acknowledges that the six month time frame was extremely short given the size of the structure and the status of the rehabilitation work by the previous owner.

(1)

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On July 1, 1987, the Developer, requested and received a time extension until January 21, 1988, exactly one year from close of escrow. Mr. Booher explained that after assuming possession of the property it became apparent that there would be problems meeting this time table. These problems included lack of previous owner's plans, building cleanup and inventory, building code problems related to the fourth floor necessitating the installation of sprinklers and fire escapes, structural damage and substandard workmanship. Additional problems related to the exterior of the building and with scheduling workcrews and obtaining lender financing. Due to escalating costs Mr. Booher returned to the PAC in October 1987 to request Agency loan assistance in order to complete the project. Agency staff reviewed the Developer's cash flow and debt service and produced a proforma which demonstrated that Mr. Booher would need to infuse additional equity into the project as a condition of the loan. (See Attachment A.) Agency staff then developed specific terms and conditions which would be prerequisite to the loan. (See Attachment B.) The first condition was that the Developer obtain a new work write up from a licensed contractor and have it reviewed by Agency Rehab staff.

In the interim, work continued on the project and considerable progress was reported in the areas of exterior carpentry, rough plumbing and electrical, insulation and new window installation. The City's Building Inspector also made an inspection in early January and approved all code items.

At the January 13, 1988 special meeting of the PAC, Mr. Booher again requested and received an extension until October 31, 1988. This action was relayed to the legal division staff who upon review of the terms and conditions of the DDA, issued a Notice of Default letter. A response was required by January 28, 1988. On January 28, 1988, the Agency received Mr. Booher's response and work write up. (See Attachments C and D.)

Staff has reviewed the materials presented by the developer and has determined that the problems which caused the project's delay and default were for the most part beyond the Developer's control. An inspection of the work underway and rehabilitation progress made also confirms the fact that the Developer is making every effort to complete the project in a timely manner. For these reasons staff supports the DDA extension and the \$48,000 loan.

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FINANCIAL DATA

Based upon the developer's cost estimate attached hereto as Attachment C, the Agency has prepared a proforma which analyses the Developer's cash flow and existing debt service. The \$48,000 loan is the maximum amount of additional debt the Agency feels the project can support given rents in the area and which maintain reasonable loan to value ratios of approximately 90%.

PROJECT COST

SOURCE OF FUNDS

Acquisition			
Land	\$ 10,000	Equity (land)	\$ 52,046
Building	42,046	Equity (rehab	
Rehabilitation	139,357	improvements)	37,513
Construction period		Conventional loan	
financing	<u>5,585</u>	(1st)	59,425
Total project costs	\$196,984	SHRA loan	<u>48,000</u>
		Total	\$196,984

As can be seen from the attached proforma, costs of rehabilitation to save the structure and comply with Design Review standards, exceed the estimated capitalization rate value of the property. The developer is willing to put up equity for the cost of construction which is greater than value.

Agency staff is recommending that a tax increment loan be made in the amount of \$48,000, in order to finance the current gap in construction funds. The Developer has agreed to the terms and conditions summarized below and fully described on Attachment B.

Loan Amount: \$48,000
Loan Terms: 3% interest
17 year term amortized over 15 years with first two years deferred - (principal and interest)

Loan Conditions:

- New Cost Estimate
- Review of Construction Contract
- Set up of Loan Escrow Account
- Identification of Equity in Project
- Balance of all current loans
- Developer Home Equity funds escrowed
- Dollars disbursed from Developer's cash first then equal disbursement of home equity loan funds and Agency loan funds

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POLICY IMPLICATIONS

The requested action is in conformance with the Agency's current policies regarding curing default conditions and should result in the rehabilitation and private ownership of a significant residential structure in Alkali Flat.

ENVIRONMENTAL REVIEW

530 10th Street is a PRIORITY STRUCTURE on the City's "Official Register Containing Structures of Architectural and Historical Significance". The Developer initiated the environmental review process upon submission of his rehabilitation plans to the City in 1987 and Dick Hastings has been monitoring the project. Because no entitlements have been requested, this project is exempt of further environmental review under CEQA.

VOTE OF PROJECT AREA COMMITTEE

At its regular meeting of October 7, 1987 the Alkali Flat Project Area Committee adopted a motion recommending that a loan request for up to \$48,000 be approved for the 530 10th Street project, subject to specific terms and conditions proposed by Agency staff. These conditions are to become part of the loan agreement. The vote was as follows:

AYES: Barrientos, Bustamonte, Cabrera, Dolinar, Finn,
Huerta, Hyde, Rasul, C. Williams, T. Williams
NOES: None
ABSTENTIONS: Booher, Camacho, Glauz
VACANCY: One
ABSENT: Davila

Please note that Mr. Booher, upon legal advice of Agency Council made proper disclosure and abstained from voting on this matter in accordance with the Conflict of Interest Code.

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At its special meeting of January 13, 1988 the Alkali Flat PAC adopted a motion recommending that the Developer receive an extension from January 21, 1988 until October 31, 1988 by the following vote:

AYES: Bustamonte, Barrientos, Cabrera, Camacho,
Dolar, Gonzales, Huerta, Roberts, C. Williams,
T. Williams

NOES: None

ABSENCES: Booher, Glauz

ABSENT: Davila, Finn, Tansey

VOTE AND RECOMMENDATION OF THE COMMISSION

At its special meeting of February 22, 1988 the Sacramento Housing and Redevelopment Commission adopted a motion recommending that the Redevelopment Agency adopt the attached resolution by the following vote:

AYES:

NOES:

ABSENT:

RECOMMENDATION

Staff recommends that you adopt the attached resolution which:


- 1) authorizes the Executive Director to amend the Schedule of Performance for the 530 10th Street Disposition and Development Agreement (DDA) by extending the time schedule for project completion until October 31, 1988.

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- 2) authorizes the Executive Director to approve a loan of \$48,000 from Alkali Flat tax increment funds (Special Rehabilitation Program A00684) in order to complete this project.

Respectfully submitted,


WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL

WALTER J. SLIPE
City Manager

Contact Person: Trish Davey
440-1322

Attachments

0758Q

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

EXTENDING DISPOSITION AND DEVELOPMENT
AGREEMENT AND AUTHORIZING APPROVAL
OF LOAN - 530 10th STREET ALKALI FLAT

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

Section 1: The Executive Director is authorized to take such action as is necessary to amend the Schedule of Performance contained in the Disposition and Development Agreement for the 530 10th Street Project between P. Bruce Booher, Margaret A. Booher, B. Jayne Little and Mark S. Little, General Partners ("Developer") and the Redevelopment Agency of the City of Sacramento dated December 24, 1986, to extend the date for completion of construction until October 31, 1988.

Section 2: The Executive Director is hereby authorized to make a loan in the amount of \$48,000 from Alkali Flat Project Area 6 tax increment funds (Special Rehabilitation: A00684) to Developer for the development of the 530 10th Street Project.

CHAIR

ATTEST:

SECRETARY

1100WPP2(65)

A. PROJECT: ROOMER
 LOCATION: 18th Street
 Alkali
 DATE: 2/10/28
 DESCRIPTION: Acquisition and rehab for residential use

B. PROJECT COSTS

ASSUMPTIONS	AMOUNT
Acquisition	18,000
Land	42,846
Building	133,257
Rehabilitation	9,000
Construction period financing	5,585
Total project costs	196,984

C. SOURCES OF FUNDS

ASSUMPTIONS	AMOUNT
Equity (land)	32,946
Equity (rehab improvements)	37,513
Conventional loan (1st)	59,423
SBIR loan	46,000
Term	13
Interest rate	9.50%
Conventional loan (1st)	59,423
Term	13
Interest rate	9.50%
SBIR loan	0
Term	13
Interest rate	3.00%
Total	196,984

D. USES & INCOME

NUMBER	RENTS	SUM
1	290	290
1	375	375
1	658	658
Total		1,315

F. CASH FLOW

YEAR	Gross scheduled income	Vacancy	Effective gross income	Operating expenses	Net operating income	Debt service (1st)	Debt service (SBIR)	Cash flow before tax	Rate of return (BT)	Value @ cap rate	Benefit/(surplus)
1	15,788	789	14,991	3,918	11,081	7,446	0	3,635	4.86%	123,122	(73,861)
2	16,411	821	15,591	4,066	11,524	7,446	0	4,078	7.04%	128,947	(68,936)
3	17,058	853	16,214	4,229	11,985	7,446	0	4,578	1.88%	133,189	(63,815)
4	17,730	886	16,843	4,398	12,445	7,446	0	5,011	2.80%	138,456	(58,488)
5	18,458	923	17,537	4,574	12,963	7,446	0	5,519	2.96%	144,035	(52,948)
6	19,199	960	18,239	4,757	13,482	7,446	0	6,038	3.95%	149,797	(47,187)
7	19,967	998	18,969	4,947	14,021	7,446	0	6,577	4.99%	155,789	(41,195)
8	20,763	1,038	19,727	5,145	14,582	7,446	0	7,136	6.07%	162,028	(34,963)
9	21,596	1,080	20,516	5,351	15,165	7,446	0	7,719	7.19%	168,581	(28,482)
10	22,468	1,123	21,347	5,565	15,782	7,446	0	8,336	8.33%	175,241	(21,742)

Booher Project
530 10th Street

- I. Potential Loan Amount: \$32,800 - \$48,000
- II. Loan Terms: 3% interest
17 year term
(amortized over 15 years with the first two years deferred).
- III. Conditions of Agency Loan
1. Submission of new cost estimate which has been signed and dated by licensed Contractor.
 2. Walk-through review of cost estimate by Larry Kraemer (SHRA) and Don Nelson (City Building Department). Figures confirmed and signed off. Agency review of construction contract.
 3. Agency will establish an escrow account for the purpose of disbursing loan funds. This account will be handled by U.S. escrow in San Francisco and progress payments will be disbursed electronically through Security Pacific Bank, Sacramento. The following funds must be escrowed prior to loan closing:
 - (1) Developers additional cash equity... the amount of which is to be determined by the balance of the home equity loan (1st mortgage) and the final cost estimate.
 - (2) The balance of the home equity loan from First Federal.
 - (3) Agency loan funds.
 4. Construction disbursements will be approved by Larry Kraemer (SHRA) following site inspections. Dollars will be disbursed as follows:
 - (1) Developer's cash first.
 - (2) Equal disbursement of home equity loan balance and Agency loan funds second.
 5. Agency reserves the right to approve all change orders and cost overruns.

January 23, 1988

Sacramento Housing & Redevelopment Agency
630 "I" Street
Sacramento, CA 95814

RE: Notice of Default -- Disposition of Development Agreement
530 - 10th Street

Dear Mr. Moore:

I received your letter regarding the Notice of Default as it pertains to my project at 530 10th Street. As requested in your letter, please let this serve as my request for an extension of time to complete my 10th Street project.

The Alkali Flat Project Area Committee has granted me an extension for the completion of the 530 10th St. project. The new deadline is on or before October 31, 1988. I would like to submit the PAC's completion date to you as my request for the completion deadline.

As you have outlined in the above referenced letter, the reasons for the delay in this project were indeed such things as the planning process, construction schedule, and cash flow availability. Please allow me to present a summary of my involvement with this project and to expound on the above reasons.

When I responded to the original RFP, I had two opportunities to enter the building, make notations and calculations, attempt to inspect the previous work and arrive at a plan for completion. While I was only in the building twice, additional visits would have been futile, given the condition of the interior. On the 1st floor, bricks were stacked as high and deep as you could see. All doors and windows were boarded solid with plywood and no light was available from outside. There was no power, so portable flashlights and lanterns were all that could be used. Throughout the interior of all floors there was debris, surplus building material, scrap salvage, some fixtures and the previous owners personal property such as bar stools, restaurant equipment and cabinets made access to many areas impossible. Still at that time, I felt that with my extensive knowledge of rehabilitation work and my work with new construction, I had a fairly accurate idea of what work remained.

Immediately upon possession of this property, my crew and I began clearing out the interior of the building in order to proceed. A considerable amount of time had to be spent inventoring the existing building materials on site, especially windows and doors. Once that was done I had to determine the condition and usability of each item. Furthermore, a considerable amount of time was spent trying to determine the previous developers plan. This was a slow and difficult project as no plans were on file with either the Housing Redevelopment Agency or the Building Inspection Department. At about this time I contacted the general contractor I had previously made arrangements with to come and begin the bid procedure. The first round of bids came in so much higher than I had anticipated at the time of the RFP that the entire project had to be rethought. I had to amend my priorities, needs and requirements and reassess my personal contribution to the project. Because of the demands in skill and knowledge, few tradesmen were interested in this type of project.

It was about this time that the project took another unfortunate twist. At the time of the RFP we had assumed that our primary task was to complete the work already started ---but this was not to be the case. Due to carelessness in reviewing the previous developers proposal for a 4th floor level, the resulting product did not meet the building code. Don Nelson, Inspector from Sacramento City Building Department, met with me several times to review and correct the deficiencies I inherited. As we uncovered more and more of the existing work we found many more problems. Severe structural damage had been caused by careless sub-contractors in the past. Substandard workmanship was found throughout the structure. The HVAC system had to be completely removed in order to correct many of the structural deficiencies. The electrical system which was incomplete, had to be retested, line by line, circuit by circuit in order to determine the safety and usability in this project. Sheetrocking had been started which further interfered in determining the safety and integrity of the project, resulting in the removal of a substantial portion of the previous sheetrock work.

None of the work outlined this far could have been aided or speeded-up by having larger crews or more rigorous time schedules. Troubleshooting such as this is best done by a few, competent, skilled and caring craftsmen who have a feel for the overall project and can be in a position to follow each item from beginning to end.

So far our discussion has focused on the interior. The following part is typical of some of the problems I have experienced trying to complete the exterior of the building.

The previous developer had planned on using this structure as his residence. As such he made many modifications to the window treatment, exterior doors, and trim work which were not compatible with the original victorian elements. My goal was to simplify the changes he made and more accurately reflect the original construction. In order to proceed with the window replacement, I was instructed to draw another set of plans to show where the previous developer intended to install the windows, show where I intended putting them, show type and size of window, type of trim and show alterations to doorways. Upon doing this I was informed there would be a 6 week delay before the items could be heard by the Preservation Board. In the meantime the windows could not be ordered, trim could not be milled and the interior framing required to do this work could not be started until the Preservation Board's final decision.

Since it is impossible to expect tradesmen to wait idle for this period of time, the crew I had lined up for the exterior had to pull off my project, change their schedule and begin another project and finish it before they could return to work on mine. As such, that combined with the lag-time in ordering the windows once approved, caused a substantial delay in the project.

It is no secret that a project cannot proceed without adequate funds. At the time of the RFP, I had been assured from a financial institution based in the Los Angeles area that I would have no trouble obtaining a refinance on another project of mine. In addition, I had a personal commitment from my Sister and Brother-In-Law that they also would have the proceeds from a loan they had applied for in time to begin this project. Unfortunately, neither was to be the case. After approximately 4 months delay, the Los Angeles lender stated they were no longer loaning in this area and were uninterested in my refinance.

Similarly, the loan proceeds from my Family were also late in arriving. Finally, in order to expedite the project, I hired Mortgage Consultants, located in Sacramento to obtain a loan as soon as possible. This also resulted in considerable costs and delays and difficulties. While I had been able to come up with approx. \$55,000.00 in cash necessary to close escrow, and the out-of-pocket cash necessary to get the project going, the additional funding was vital to be able to proceed. I must admit that because I was concentrating all my time and effort into preparing this project and caring for all other refinance requirements, it was necessary for me to siphon off funds ear-marked for the 10th Street project in order to cover my living expenses. This too presented a drain on the funds and for a time resulted in my taking outside projects in order to cover expenses. All the funds I counted on being available a year ago finally came through toward the end of 1987. I would like to point out that even with all the set-backs, hardships and obstacles, I did continue to work diligently, albeit with a very limited crew on this project over the course of the past year.

The stories regarding this project could go on and on as is the case with most rehab projects. No one takes on this type of project expecting a trouble free path to a quick buck. People who work on this type of house do so because they care about the house, the integrity of the structure and historic role such houses played in our past.

As a member of the Alkali Flat Project Area Committee, I feel it has been our goal first and foremost to get housing stock put back in use within our community. Secondly, to work hard to try and preserve the historic buildings we have within our community. Thirdly, to try to make sure that projects which have benefited from Housing and Redevelopment assistance do not sit derelict and fall prey to "stock-piling" by speculators just waiting to see what way the market will go. Lastly, I fully recognize the responsibility and obligation on the part of the Sacramento Housing and Redevelopment Agency to see that all this is done in a timely manner. I have never felt however, that it was a goal to put unnecessary pressure or constraints on the developers working in our neighborhood.

Finally and most importantly, I would like to comment on the extremely demoralizing effect default procedure by your agency would have on me and my project. Since all funds spent to date have been "out-of-pocket", I am already "penalized" in the form of interest payments, continuous financial strain and personal hardships. I hope you will bear in mind two recent, and local issues the S.H.R.A. have been involved with. Reginal Transit, in their effort to develop the light rail system, had a very extensive staff, expert analysts, and an abundance of tax-payer money to spend in order to get light rail on line. With all these resources at hand, they came in vastly over-budget, experienced long delays, and made major mistakes along the way. Another good local example of a project being delayed is the Self Help Housing project sponsored by Rural Housing Corp of Calif. This is an example of dedicated, hard working people working together for the public good. Again, with skilled personnel and expertise, available funding and support from many levels of government, the project is still lagging almost 8 mos. behind schedule. I hope you will agree with me that all major goals of both SHRA and the Alkali Flat Area Committee are being met with my project at 530 - 10th St.

I am still very enthusiastic about my project and am looking forward to your approval of an extension of time that is in keeping with the extension the Project Area Committee has already granted. I feel certain that you will see there is no need to enforce the construction extension fee provision of the DDA.

Sincerely,

P. Bruce Booher

P. BRUCE BOOHER

ATTACHMENT E

EXHIBIT E

SCHEDULE OF PERFORMANCE

1. At the effective date of this Agreement, Redeveloper has already submitted Preliminary Plans & Evidence of Financing which have been approved by Agency Complete at effective date of this Agreement
2. Open Escrow Within Five (5) days after Agency approves Disposition and Development Agreement
3. Redeveloper shall deposit into escrow the purchase price for the Property and all other executed documents necessary to permit close of escrow On or before January 21, 1987
4. Agency shall deposit into escrow the Deed for Conveyance of the Property On or before January 21, 1987
5. The Purchase Price for the Property shall be paid to Agency, the Deed delivered to Redeveloper and the escrow closed On or before January 21, 1987
6. Redeveloper shall provide proof of insurance, obtain building permits and commence construction of improvements on the Property On or before February 28, 1987
7. Redeveloper shall complete construction of the Improvements on the Property On or before October 31, 1988