

RESOLUTION NO. 89-056

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF June 27, 1989

RESOLUTION AUTHORIZING EXECUTION OF DEVELOPER ASSISTANCE FOR COMPLETION AND OPERATION OF WOODHAVEN SENIOR HOUSING PROJECT

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

Section 1: A loan of \$500,000 from Del Paso Heights Tax Increment Fund (Cost Center A01503) for the completion of the Woodhaven Senior Housing Project is hereby approved.

Section 2: The Acting Executive Director is hereby authorized to negotiate with the Ibex Group the terms of the Redevelopment Agency's participation in the Woodhaven Senior Housing Project in accordance with the concepts contained in the staff report attached and to execute all agreements and documents necessary.

Section 3: The use of Downtown Tax Increment Funds (Cost Center 100) for an operational subsidy for the Project is hereby approved. This contribution shall not exceed \$200 per unit per month (\$249,600 maximum per year) and shall only be made available during the first five years of the Project's operation if Section 8 Certificates from the Housing Authority of the City of Sacramento are not available for the project.

Section 4: Rebate to the project of property taxes received by Agency on account of the project is hereby approved.

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RESOLUTION NO.: 89-056

DATE ADOPTED: JUN 27 1989

Section 5: The Redevelopment Agency of the City of Sacramento hereby finds that expenditure of Downtown Redevelopment Area Tax Increment Funds on the Woodhaven Senior Housing Project will be of benefit to the Downtown Redevelopment Area.

Anne Keiden
CHAIR

ATTEST:

Anthony P. ...
ASSISTANT SECRETARY

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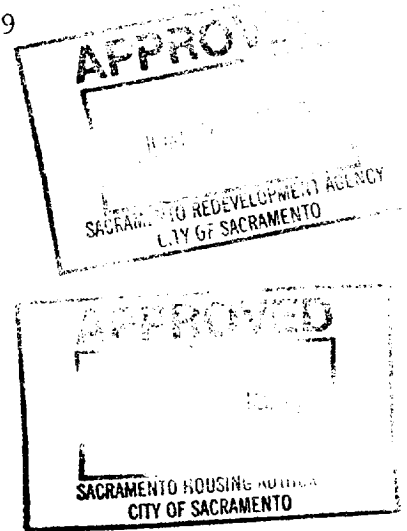


**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



June 20, 1989

Redevelopment Agency of the
City of Sacramento
and
Housing Authority of the
City of Sacramento
Sacramento, California



Honorable Members in Session:

SUBJECT: Woodhaven Elderly Project

SUMMARY

Woodhaven is an approximately two-thirds completed elderly project at the corner of Rio Linda Boulevard and Grand Avenue. The property was acquired by the Unified Savings Bank following a foreclosure and Trustee's sale. The Ibex Group, a partnership headed by the John Stewart Company, has an option to acquire the project, subject to arrangement of adequate financing.

Completion and operation of this project will require a deep public subsidy. This report recommends: 1) commitment of \$500,000 of Del Paso Heights Tax Increment Funds towards completion of the project on terms to be negotiated by the Acting Executive Director; 2) a commitment of 104 Project Based Section 8 Certificates to the Woodhaven Project; 3) a five year commitment of Downtown Tax Increment Funds in an amount necessary to make the project breakeven at any time during the first five years that Section 8 Certificates are not available

BACKGROUND

History

In January, 1983, the Redevelopment Agency authorized the issuance of a request for proposals for the development of vacant Agency-owned property on the corner of Rio Linda Boulevard and Grand Avenue (Map 1 attached). One proposal was received from the partnership of High Tech Construction and Tammarine

6-27-89

89-056

RESOLUTION No.

JUN 27 1989 (1)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency and
Housing Authority
City of Sacramento
Page 2

Development for a 104 unit senior housing project. Subsequently, in August, 1984, the Redevelopment Agency approved negotiations with the developer. In March, 1985, the Development and Disposition Agreement (DDA) was approved.

Under the terms of the DDA, the land was sold for the established market value of \$80,000, the developer received a \$175,000 pre-development loan, the construction of the project was to be privately financed, and the development would consist of 104 units of senior (62 years and older) housing of which 25% of the units were restricted to low-income seniors. These senior-only restrictions put forth by the Planning Department and the Agency are recorded restrictions which survive foreclosure. These restrictions are important, given that the project was planned and built for active seniors (i.e., only 55 parking spaces for 104 units). As a result, it could not adequately house a non-senior population.

The project received an initial Construction Note of \$1.9 million from a lender that subsequently sold it to Unified Savings Bank in Southern California. The project "broke ground" in October, 1985.

During the first two quarters of 1986, the project proceeded in construction with rapid draws against Unified's construction account. Approximately mid-year, the project had nearly exhausted the initial construction loan (and was between 60% and 75% complete). The developers appealed to both the Bank and the Agency for additional construction funds.

Following an independent estimator's review of costs to complete and lengthy negotiations with the Bank, a package of financing was put together to permit completion of the project. In May, 1987, however, Unified Savings informed the Agency that the Bank was insolvent, would be liquidating assets and could not participate in any further financing.

In June, 1987, the Bank initiated foreclosure on the subject property. In July, 1987, the developer filed for bankruptcy. In August, 1987, the Agency filed a claim in the bankruptcy court for our \$175,000. In late 1987, the property was put to a trustee sale and the Bank took the property back. By this time, the Bank was under the control of the Federal Savings and Loan

RESOLUTION No. 89-056
(2)
JUN 27 1989

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency and
Housing Authority,
City of Sacramento
Page 3

Insurance Corporation (FSLIC). Since that time, the property has been on the market for \$1.75 million, as is (e.g., 75% completed). The listing agent indicated that several hundred inquiries had been received, but to date, none had concluded in a sale.

Current Proposal

The Ibex Group, (a California Partnership headquartered in San Francisco), has taken an option to purchase the Woodhaven Senior Project from the Unified Bank for \$1,300,000. The Ibex Group has a proven track record in developing and managing low-income and senior housing projects in Northern California. Their estimated cost to complete the project, including a first year operating reserve, is approximately \$1,000,000. An independent cost analysis by our staff confirms this figure.

The following tables reflect the developer's preliminary costs, sources of funds, and proforma for the first full year of operations:

1. Development Costs

Acquisition	\$1,300,000
Completion - Hard	690,300
Completion - Soft	80,000
Finance Costs	59,898
Operating Reserve	152,041
Marketing	50,000
	<u>\$2,332,239</u>

2. Sources of Funds

CHFA	\$1,767,422
SHRA	500,000
Developer Equity (1)	64,818
	<u>\$2,332,240</u>

(1) Excludes potential syndication proceeds.

RESOLUTION No. 89-056

JUN 27 1989 (3)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency and
Housing Authority,
City of Sacramento
Page 4

3. Second Year Operations (96% occupancy)

Projected 1990 Section 8 Contract Rents	\$424/month
Gross Scheduled Income	529,402
Vacancy (4%)	21,176
Effective Gross Income	508,226
Operating Expenses, including management fee	294,840
Reserves	32,760
Net Operating Income	180,626
CHFA Payment	148,297
Cash Flow Before Tax	32,329

The Group has received a conditional loan commitment from the California Housing Finance Agency of approximately \$1.77 million. Final commitment is contingent on the actions of the Redevelopment Agency recommended in this report. The Group requested that the Redevelopment Agency make an up-front contribution of \$500,000 to the project on terms to be negotiated. This contribution will be either through a deferred payment loan or an equity investment. The decision as to the best approach must await analysis of tax consequences of each.

Depending on the results of the above analyses, it may be desirable to funnel the Agency's funds through a non-profit corporation, which would be a Co-General Partner with the Ibox Group. The Agency would loan or make a grant of the \$500,000 to the non-profit, which in turn would make a capital contribution to the Partnership. We are currently exploring alternative non-profit structures. The most desirable would be to have County appointed members of the Housing and Redevelopment Commission, plus two representatives of the Del Paso community serve as the Directors of the Corporation. This would insure continued Agency involvement in the operation of the project and hopefully, would avoid the affiliated parties issues from the perspective of HUD and the Internal Revenue Service. A second option would be to use an existing community non-profit (such as Rural California Housing Corporation) and augment their Board with two Del Paso Heights community members.

RESOLUTION No. 89-056

(4)

JUN 27 1989

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency and
Housing Authority,
City of Sacramento
Page 5

Regardless of the approach used, there will be provisions for the Agency, or its non-profit affiliate, to have the first right of refusal to acquire Ibex's interest in the event of any third-party offer to acquire that interest. There will also be a provision giving the Agency or the non-profit the option to acquire Ibex's interest in the 10th year at 90% of fair market value, based on a mutually acceptable appraisal which will take into account any occupancy and/or income restrictions then existing.

Even with an up-front commitment of \$500,000, the project will require an annual operational subsidy as a result of the elderly-only restrictions placed on occupancy and the anticipated market rents the project could command. We are proposing that this subsidy be accomplished through the attachment of Section 8 Certificates to the project, if possible. Recent revisions to the Section 8 Program permit the Housing Authority to allocate up to 15% of its Section 8 Certificates to specific projects, thereby insuring the affordability of the project to low-income persons while guaranteeing the financial security of the project. In addition, staff is exploring the possibility of using rental rehab funds on the property instead of Project Based Section 8. (HUD does not permit both programs to be used concurrently).

We are currently working with the Department of Housing and Urban Development (HUD) to have our current Section 8 Annual Contributions extended so that we can sign an Agreement with the Ibex Group which pledges the Section 8 Certificates upon completion of construction. There is some uncertainty as to when the Certificates can be made available. HUD currently prohibits new contracts from being executed unless there is a minimum two years under the contract. This means that if we receive only a one year extension, the construction must be completed and the contract entered into by December 14, 1989. (Our present Annual Contributions Contract expires on December 14, 1990). If we receive a two year extension, this December 14, 1989 deadline is less critical. HUD has not been able to advise us as to when the ACC will be extended, and/or how long the extension will be.

In view of the Section 8 uncertainty, we are recommending that the Redevelopment Agency guarantee Downtown Redevelopment Area

RESOLUTION No. 89-056
(5)

JUN 27 1989

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency and
Housing Authority,
City of Sacramento
Page 6

Tax Increment Funds for rental assistance payments in an amount sufficient to make the project able to pay expenses and cover a reasonable reserve fund, or the Section 8 Fair Market Rents, whichever is less. Such rental assistance shall not exceed \$200 per unit per month. The annuity would only kick-in during those periods during the first five years of the project's operation when Section 8 Certificates are not available. This guarantee is essential due to the uncertainty of the Project Based Certificate Program and the deadlines imposed by the Bank foreclosure and by CHFA for their final commitment.

It is not possible, at this time, to fix the market rates that this type of project can command at this location. Estimates range between \$200 and \$275 a month. If Section 8 assistance is not possible, it will be necessary to "test the market" and be prepared to make adjustments to achieve a desirable rent-up rate. Table 4 illustrates the Agency's potential obligation under several market rate scenarios:

4. Potential Agency Operational Assistance Obligation
(First full year of operations)

Required gross scheduled income(1)	\$497,073			
Required income per unit per month	\$398			
	/ \ / \			
Prospective market rate rent	\$275	\$250	\$225	\$200
Prospective assistance per unit	\$123	\$148	\$173	\$198
	/			
Total Annual Assistance	\$153,500	\$184,700	\$215,900	\$247,000

(1) Amount necessary to meet debt service, reserve requirement, and operational cost - no cash flow.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency and
Housing Authority,
City of Sacramento
Page 7

The Ibex Group is a General Partnership, consisting of five parties. These are: The John Stewart Company (a development and property management firm), the Midstate Construction Company, Sandy and Babcock (an architectural firm), Rick Moran (an attorney), and Kentfield Enterprises. The Group is currently involved, under contract to Mercy Family Housing, in substantial rehabilitation of a San Francisco historic hospital complex into low-income family housing. The Group has also recently been selected by the City of El Cerrito to develop a combination of senior and family housing.

The John Stewart Company is the General Partner of the Ibex Group and is our principal contact for the negotiations. This Company serves as management agent for the Woodhaven Project upon its completion. The Company owns and/or manages a number of housing projects in Northern California and has had extensive experience in the completion and operation of low-and-moderate income complexes. Local projects owned and/or managed include Cottonwood Arms (95 units) in Woodland, Dos Pinos Housing Cooperative (60 units) and Olive Court Apartments (24 units) in Davis, Rancho Arms (95 units) in Rancho Cordova, San Juan Apartments (90 units) in Fair Oaks, and Shiloh Arms (106 units) in Sacramento.

Expeditious action by the Redevelopment Agency is critical to the successful completion of negotiations. CHFA next meets on July 13th, and as stated above, a final loan commitment is contingent on the Agency's commitments. Additionally, the option to purchase from the bank expires on June 26th. The Ibex Group is pursuing and is prepared to pay to extend time on the option. To further complicate matters, the FSLIC team has now been replaced by the Federal Deposit Insurance Corporation (FDIC). This could mean the reopening of negotiations.

FINANCIAL DATA

The immediate cost to the Agency will be \$500,000 to complete the project. Funds are available from Del Paso Heights Replacement Housing. These funds will need to be made available as either a deferred payment loan or a capital contribution. In either case, it is anticipated that these funds will remain in the project for an indefinite period of time, particularly if the Agency exercises its option to purchase.

RESOLUTION No. 89-056
(7)

JUN 27 1989

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency and
Housing Authority,
City of Sacramento
Page 8

An annual operating deficit is anticipated. Operating expenses and debt service far exceed the anticipated ability to pay of persons who might elect to reside in this project. A commitment of 104 Section 8 Certificates under the approved Project Based Certificate Program is proposed. Because of the uncertainty of implementing the Project Based Program, staff is also pursuing the possibility of a rental rehabilitation loan of \$350,000. By early July, staff should know which program will be pursued.

In the event Section 8 Certificates are not available during any part of the first five years, an Agency subsidy will be required. This most likely would range between \$185,000 (assuming market rate rent of \$250) and \$247,000 (assuming a market value rate of \$200). The rental rehabilitation option would reduce the Agency's annual rental assistance payment by \$30,000 to \$40,000 a year). The proposed source of this possible subsidy is Downtown Redevelopment Area Tax Increment using the 20% low-and-moderate-income housing set-aside. The potential requirement will need to be anticipated annually and be made available in the annual budgetary process.

There will be some loss of revenues to the Housing Authority if Section 8 Turnover Certificates are set aside and not used for a period of time. For each unused Certificate, the Housing Authority loses approximately \$40 per month in administrative fees. It is anticipated that between five and ten Certificates a month could be set aside over the next six months, resulting in a loss of between \$4,200 and \$8,400. This can be absorbed as part of construction costs.

ENVIRONMENTAL REVIEW

This project was fully reviewed by City Planning in accordance with the California Environmental Quality Act (CEQA). A Negative Declaration, control #P85-028, was reviewed and adopted by the City Council in January, 1985, during original project approval. This proposed action to finance completion of the development will not result in a substantial change in the project or in the physical circumstances under which the project is to be undertaken, and involves no new impacts not considered in the previous initial Study and Negative Declaration. Therefore, no further environmental documentations is required.

RESOLUTION No. 89-056
(8)

JUN 27 1989

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency and
Housing Authority,
City of Sacramento
Page 9

WBE/MBE

This project is subject to the Agency's WBE/MBE utilization goals of 20% for minority owned businesses and 5% for women owned businesses. The prime contractor (owner) will be required to show what good faith efforts were made to meet the stated goals, and to report on actual utilization.

POLICY IMPLICATIONS

Financial assistance to complete the project and the provision of operational subsidies are consistent with previously approved policy and there are no policy changes being recommended.

VOTE AND RECOMMENDATION OF REDEVELOPMENT ADVISORY COMMITTEE

The Del Paso Heights Redevelopment Advisory Committee is scheduled to hear this project at its meeting of June 22, 1989.

VOTE AND RECOMMENDATION OF COMMISSION

It is anticipated that at its meeting of June 26, 1989, the Sacramento Housing and Redevelopment Commission will adopt a motion recommending that you take the above mentioned action. In the event they fail to do so, you will be advised prior to your June 27, 1989 meeting.

STAFF RECOMMENDATION

Staff recommends adoption of the attached Resolution which:

1. Approves the use of \$500,000 of Del Paso Heights Tax Increment Funds for completion of the Woodhaven Senior Project;
2. Authorizes the Acting Executive Director to negotiate with the Ibex Group the terms of Redevelopment Agency's participation in the Woodhaven Senior Project, subject to final approval by the Redevelopment Agency;

RESOLUTION No. 89-056

(9)

JUN 27 1989

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency and
Housing Authority,
City of Sacramento
Page 10

3. Approves a commitment of 104 Project Based Section 8 Certificates to the Woodhaven Project for a minimum of five years, upon extension of the Annual Contribution Contract (ACC) by the Department of Housing and Urban Development;
4. Approves the use of Rental Rehabilitation funds on the project, should the Acting Executive Director determine that the Project Based Section 8 Program will not be feasible on the project.
5. Approves an annual contribution from Downtown Tax Increment Funds in an amount sufficient to make the Woodhaven Project breakeven and cover a reasonable reserve fund to a maximum of \$200 per unit per month, or the Section 8 Fair Market Rent (FMR), whichever is less. This contribution will be made available during the first five years of the project's operation when Section 8 Certificates are not available;
6. Finds that expenditure of Downtown Tax Increment Funds on this project will be of benefit to the Downtown Redevelopment Area.

Respectfully submitted,

TRANSMITTAL TO COUNCIL:

Walter J. Slips
CITY MANAGER

Andrew J. Plesica
ANDREW J. PLESICA
Acting Executive Director

Contact Person: John Molloy - 440-1357

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RESOLUTION No. 89-056

JUN 27 1989

(10)