TO: Mayor and City Council
FROM: Steven J. Pinkerton, Housing & Redevelopment Director
SUBJECT: RESOLUTION: 1) ADOPT A RESOLUTION APPROVING A $600,000 AMENDMENT TO THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) LOAN BETWEEN THE CITY OF STOCKTON AND DIAMOND COVE II ASSOCIATES, A CALIFORNIA LIMITED PARTNERSHIP, WITH ACLC, INC. AS THE GENERAL PARTNER, FOR ADDITIONAL CONSTRUCTION COSTS FOR THE DIAMOND COVE II PROJECT AND 2) AUTHORIZE THE CITY MANAGER TO MAKE ANY NECESSARY ADMINISTRATIVE CHANGES AND TO EXECUTE THE NECESSARY DOCUMENTS REQUIRED TO IMPLEMENT COUNCIL DIRECTION

RECOMMENDATION

It is recommended that the City Council 1) adopt a resolution approving a $600,000 amendment to the Community Development Block Grant (CDBG) loan between the City of Stockton and Diamond Cove II Associates, a California Limited Partnership, with ACLC, Inc. as the general partner, for additional construction costs for the Diamond Cove II Project and 2) authorize the City Manager to make any necessary administrative changes and to execute the necessary documents required to implement Council direction.

DISCUSSION

Background

For the past several years, the City has focused attention and resources in the Carrington Circle and Access Street area in an attempt to combat crime and blighting influences. To assist in this process, the area was designated a SAFE Neighborhood. The initial activities began with the rehabilitation, by ACLC, of two apartment complexes consisting of 78 units on Carrington Circle. Following that effort, the Diamond Cove II project was designed to increase the stability of the neighborhood by rehabilitating 10 existing duplexes, acquiring vacant land, constructing a 20-unit apartment building with parking and amenities, and constructing a combined child care and community resources center. Because of the size and scope of this project and considering that it
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must meet the “prevailing” wage requirements, ACLC applied for and received a 9 percent Federal tax credit allocation in the amount of $8.4 million. The funding plan was in place in March 2004 and the construction is now underway.

Present Situation

Since September 2003, when the project’s estimates were established for the tax credit application, the bids for the drywall, stucco, fire sprinkler system and framing for this project have increased by 42 percent because of major increases in labor, insurance and material costs. Along with industry increases, the project has experienced unforeseen structural problems with the existing duplex garage roofs. The structural problem adds an unanticipated $54,720 cost to the project. At the time the project was budgeted, early estimates from contractors appeared high and those bids were rejected in order to seek another set of bids. The strategy was that to re-bid the project would result in lower costs. Unfortunately, in the time between the first set of bids and the recent request for bids, the construction climate changed dramatically. The bid increases amount to $522,623.22 and, when combined with the amount for the roof, equals a total request of $577,343.22 in additional funds. A recap of the increased cost is charted below:

<table>
<thead>
<tr>
<th>Trade</th>
<th>Budget</th>
<th>Amount Increased</th>
<th>New Bid Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drywall</td>
<td>$115,240</td>
<td>$74,966.40</td>
<td>$190,236.40</td>
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<tr>
<td>Stucco</td>
<td>156,500</td>
<td>142,483.38</td>
<td>298,983.38</td>
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<tr>
<td>Fire Sprinkler Sys.</td>
<td>80,000</td>
<td>151,786.44</td>
<td>231,786.44</td>
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<tr>
<td>Framing</td>
<td>458,167</td>
<td>153,387.00</td>
<td>611,554.00</td>
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<tr>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Sub Total</td>
<td>809,907</td>
<td>522,623.22</td>
<td>1,332,530.22</td>
</tr>
<tr>
<td>New Structural</td>
<td>-0-</td>
<td>54,720.00</td>
<td>54,720.00</td>
</tr>
<tr>
<td>Repairs to Duplexes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$809,907</td>
<td>577,343.22</td>
<td>1,387,250.22</td>
</tr>
</tbody>
</table>

Due to the large shortfall of funding, ACLC, Inc. is requesting that the City provide an additional $600,000 to the existing $120,000 CDBG loan in order to accommodate the increase in construction costs and to ensure the timely completion of the project.
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To preserve the tax credit status, ACLC requested the tax credit consultant review the impact of the shortfall and the request for additional funds from the City of Stockton. ACLC has received written confirmation from the consultant that the additional funds will not affect the project’s tax credit compliance.

Utilizing an amendment to the existing CDBG loan agreement reduces the paperwork, monitoring time and loan servicing costs to the City. The loan terms will remain the same as the original agreement: 3 percent simple interest with annual repayment based upon net annual cash flow and with the entire principal and accrued interest balance due in full by the end of year 55.

FINANCIAL SUMMARY

Adequate CDBG funds are in Account No. 052-8523-992.90-54 to fund the additional $600,000.

Respectfully submitted,

STEVEN J. PINKERTON, DIRECTOR
HOUSING AND REDEVELOPMENT DEPARTMENT

SJP/SE:ca

APPROVED BY THE CITY MANAGER

MARK LEWIS, CITY MANAGER
Resolution No.  

STOCKTON CITY COUNCIL

RESOLUTION 1) APPROVING A $600,000 AMENDMENT TO THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) LOAN BETWEEN THE CITY OF STOCKTON AND DIAMOND COVE II ASSOCIATES, A CALIFORNIA LIMITED PARTNERSHIP, WITH ACLC, INC. AS THE GENERAL PARTNER, FOR ADDITIONAL CONSTRUCTION COSTS FOR THE DIAMOND COVE II PROJECT AND 2) AUTHORIZE THE CITY MANAGER TO MAKE ANY NECESSARY ADMINISTRATIVE CHANGES AND TO EXECUTE THE DOCUMENTS REQUIRED TO IMPLEMENT COUNCIL DIRECTION

WHEREAS, the Carrington Circle and Access Street neighborhood has been the focus of neighborhood revitalization efforts by a number of City departments, other agencies and ACLC, Inc.; and

WHEREAS, as part of the revitalization of this neighborhood ACLC has been successful in acquiring several properties within this area and is in the process of rehabilitating ten duplex units and constructing a 20-unit apartment complex with a combined daycare and community resource center; and

WHEREAS, ACLC, Inc. is the General Partner for Diamond Cove II Associates, a California Limited Partnership; and

WHEREAS, Diamond Cove II Associates applied for and was successfully awarded 9 percent low-income housing tax credits in the amount of $8.4 million in September 2003 to rehabilitate and construct these units; and

WHEREAS, the funding plan for the rehabilitation and construction is in place; and

WHEREAS, since the time of project inception, the bids for the drywall, stucco, fire sprinkler system and framing for this project increased by 42 percent because of major increases in labor, insurance and material costs causing a $600,000 shortfall; and

WHEREAS, this project has an existing $120,000 CDBG loan; now, therefore,

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF STOCKTON, AS FOLLOWS:

1. That the City of Stockton hereby approves the amendment to the existing Community Development Block Grant (CDBG) loan between the City of Stockton and Diamond Dove II Associates, a California Limited
Partnership, with ACLC, Inc., as the General partner, for an additional $600,000 of CDBG funds for the Diamond Cove II project.

2. That the City manager is hereby authorized and directed to make any necessary administrative changes and to execute the necessary documents required to implement Council direction.

PASSED, APPROVED and ADOPTED ________________________________

ATTEST:

GARY A. PODESTO, Mayor
of the City of Stockton

KATHERINE GONG MEISSNER
City Clerk of the City of Stockton
STOCKTON CITY COUNCIL

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