June 29, 2010

TO: Mayor and City Council
    Chairperson and Members of the Stockton Redevelopment Agency

FROM: Kevin O’Rourke, Interim Executive Director/City Manager
      Stockton Redevelopment Agency

            Gustavo A. Durán, Interim Director
            Economic Development Department

SUBJECT: PROVIDE TWO LOANS TOTALING $2,900,000 TO REHABILITATE
         THE COMMUNITY OF ALL NATIONS APARTMENTS

RECOMMENDATION

City Council Action

It is recommended that the City Council adopt a resolution approving a $965,000 loan to
Eighth Street Housing L.P. for the rehabilitation of the Community of All Nations
Apartments using HOME Investment Partnerships Program Loan funds designated for
Community Housing Development Organizations, and authorizing the City Manager to
take appropriate actions to carry out the intent of this resolution.

Redevelopment Agency

It is recommended that the Redevelopment Agency adopt a resolution approving a
$1,935,000 Low and Moderate Housing Set-Aside loan to Eighth Street Housing L.P. for
the rehabilitation of the Community of All Nations Apartments, and authorizing the
Executive Director to take appropriate actions to carry out the intent of this resolution.

SUMMARY

The subject 75-unit property has severe structural problems stemming from
inadequately designed foundations, and a lack of maintenance over the years by
several owners. As a result, the units were deemed to be uninhabitable, and the
tenants were faced with eviction. In December 2007, the Redevelopment Agency
approved an $857,000 loan to Visionary Homebuilders of California, dba Eighth Street
Housing L.P., to acquire the property and to provide for preliminary investigative work
leading to a comprehensive revitalization. Plans have now been completed and Eighth
Street Housing L.P. is requesting an additional $2,900,000 loan to fund the construction.

AGENDA ITEM 6.13
DISCUSSION

Background

The Community of All Nations Apartments at 2171 Dockery Court (vicinity map attached) was built in 1982 and received direct project-based Section 8 rental assistance from the U.S. Department of Housing and Urban Development. As with all publicly-assisted units, rents were capped to make them affordable with only modest annual increases allowed to cover “normal” operating costs.

After a period of time, the project experienced financial problems due to extraordinarily high maintenance and repair costs related to substandard foundation construction. Inadequately designed foundations for the existing soil conditions led to buckling floors, damaged walls, and failing roof trusses. Over time, the cost of repairs exceeded the available cash flow, and many items were not addressed. After several failed inspections in 2006 and 2007, U.S. Department of Housing and Urban Development threatened to revoke its Section 8 rental assistance, and the first mortgage holder, California Housing Finance Agency, began foreclosure proceedings after it became apparent the owners would not be able to complete the repairs.

In an effort to avoid foreclosure and the eviction of the tenants, the California Housing Finance Agency, with approval from U.S. Department of Housing and Urban Development, asked Visionary Homebuilders of California to explore the possibility of acquiring the property and undertaking repairs. Visionary Homebuilders of California completed an assessment of the condition of the units in 2007 and formed a limited partnership called Eighth Street Housing L.P. to purchase the property. On December 4, 2007, the Redevelopment Agency approved an $857,000 Strong Neighborhood Initiative loan to Eighth Street Housing L.P. to fund a portion of the purchase price and for predevelopment work.

After acquiring the property, Eighth Street Housing L.P. made a number of repairs to stabilize the units until a comprehensive revitalization plan could be developed. The preliminary concept included demolishing the existing 75 units and reconstructing twice as many; however, the project could not attract the necessary financing given the current economy.
June 29, 2010

PROVIDE TWO LOANS TOTALING $2,900,000 TO REHABILITATE THE COMMUNITY OF ALL NATIONS APARTMENTS

(Please note: This is page 3)

Present Situation

Project plans and cost projections have been completed for rehabilitation of the existing units. The total project cost has been estimated at $14,890,548; the project budget is summarized in the following table:

<table>
<thead>
<tr>
<th>Project Cost</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Stockton Acquisition Loan (Approved)</td>
<td>$857,000</td>
</tr>
<tr>
<td>City of Stockton Rehab Loan (Proposed)</td>
<td>$2,900,000</td>
</tr>
<tr>
<td>Tax Credits</td>
<td>$7,849,601</td>
</tr>
<tr>
<td>Private Financing</td>
<td>$3,173,847</td>
</tr>
<tr>
<td>Owner Equity</td>
<td>$110,100</td>
</tr>
<tr>
<td><strong>Total Financing</strong></td>
<td><strong>$14,890,548</strong></td>
</tr>
</tbody>
</table>

The proposed City loan of $2,900,000 would be funded with a combination of $1,935,000 in Redevelopment Agency Low and Moderate Housing Set-Aside funds, and $965,000 in Community Housing Development Organization (CHDO) set-aside funds from the HOME Investment Partnerships Program. Each year, jurisdictions are required to set aside a minimum of 15 percent of their HOME allocation for CHDO projects.Visionary is a certified CHDO, and therefore, is qualified to use these funds. With the approval of other Housing loans this year, there is only $198,993 remaining in the 15 percent designation; therefore, staff is requesting Council reallocate an additional $766,000 from the HOME Program Loan Pool account to the CHDO Loan account in order to provide sufficient funding for the $965,000 loan.

A peer review of the project by an independent financial consultant has determined the costs and financing plan to be reasonable. The Council’s and the Agency’s commitment of additional funds to this project is a prerequisite to Eighth Street Housing L.P. applying for Low Income Housing Tax Credits and private financing. If they are successful in obtaining tax credits, the rehabilitation work should begin by Spring 2011.

Existing tenants will be required to temporarily relocate during construction and will receive relocation benefits in accordance with applicable laws. All existing tenants will be given an opportunity to return after construction is completed. Prior to the project commencing, a relocation plan must be submitted to the City, detailing how and where tenants will be housed during construction. This plan will be analyzed by City staff and forwarded to the Council and Agency for approval.
ENVIRONMENTAL CLEARANCE

Staff has determined that the project is Categorically Exempt per Section 15301, Existing Facilities, and the appropriate, and the appropriate Notice of Exemption has been filed. In addition, this project has been determined to be Categorically Exempt, per Section 58.35(a)(3)(ii) of the National Environmental Policy Act, and will not require any mitigation for compliance with any listed statutes or authorities, and the appropriate Statutory Worksheet has been completed.

FINANCIAL SUMMARY

Sufficient funds are available for this loan from a combination of HOME Investment Partnership funds and Redevelopment Low and Moderate Income Housing Set Aside. With the approval of other Community Housing Development Organization (CHDO) loans this year, there is only $198,993 remaining in the 15 percent designation, therefore staff is requesting Council reallocate $766,000 from the HOME Program Loan Pool Account No. 059-8530-640 to the HOME Program Community Housing Development Organization (CHDO) Loan Account No. 059-8531-640 to provide sufficient funding for the $965,000 loan. Funding for the Redevelopment Low and Moderate Income Housing Set Aside Loan in the amount of $1,935,000 is available in RDA Low Mod Income Housing Account No. 339-0000-992 to be transferred to the Agency’s Special Project Loan Fund 021 and appropriated for expenditure in RDA Special Project Housing Project Account No. 021-7380-640. The total loan amount is $2,900,000.

Respectfully submitted,

GUSTAVO A. DURÁN, INTERIM DIRECTOR
ECONOMIC DEVELOPMENT DEPARTMENT

GAD:BB:myb

Attachment

APPROVED BY

KEVIN O’ROURKE
INTERIM CITY MANAGER
Community of All Nations Apartments
Resolution No. __________

STOCKTON CITY COUNCIL

RESOLUTION APPROVING A COMMUNITY HOUSING DEVELOPMENT ORGANIZATION SET-ASIDE LOAN FROM THE HOME INVESTMENT PARTNERSHIP PROGRAM TO EIGHTH STREET HOUSING L.P. TO REHABILITATE THE COMMUNITY OF ALL NATIONS APARTMENTS, AND AUTHORIZING THE CITY MANAGER TO TAKE APPROPRIATE ACTIONS

The City of Stockton is a recipient of Federal HOME Investment Partnerships Program (HOME) funds for the purpose of expanding the supply of decent, safe, sanitary, and affordable housing for very low-income persons; and,

On December 4, 2007, the Redevelopment Agency of the City of Stockton approved an $857,000 loan to Eighth Street Housing L.P., a California limited partnership, to acquire the Community of All Nations Apartments at 2171 Dockery Court, APN 171-110-18 (the "Property"), and to undertake necessary predevelopment activities; and

Eighth Street Housing L.P. has now acquired the property and has completed plans to substantially rehabilitate the Property, and now seeks additional HOME funding in the amount of $965,000 for construction work, now, therefore,

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

1. A $965,000 Community Housing Development Organization Set-aside loan from the HOME Investment Partnerships Program to Eighth Street Housing L.P. for the purpose of rehabilitating the Community of All Nations Apartments located at 2171 Dockery Court, APN 171-110-18 is hereby approved.

2. The City Manager is hereby authorized to take other actions as are appropriate to carry out the purpose and intent of the program.

PASSED, APPROVED AND ADOPTED

ATTEST: __________________________________________

ANN JOHNSTON, Mayor
of the City of Stockton

KATHERINE GONG MEISSNER
City Clerk of the City of Stockton

::ODMA/GRPW/SEVCOS.HRD.HRD_Library:102026.1
RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE
CITY OF STOCKTON APPROVING A LOW AND MODERATE INCOME
HOUSING SET-ASIDE LOAN TO EIGHTH STREET HOUSING L.P. TO
REHABILITATE THE COMMUNITY OF ALL NATIONS APARTMENTS, AND
MAKING FINDINGS AND APPROVALS PURSUANT TO
THE CALIFORNIA REDEVELOPMENT LAW

The City Council has adopted the Amended and Restated Redevelopment Plan for the South Stockton Project Area (the "Project Area") by Ordinance No. 036-02 on July 2, 2002, as amended (the "Redevelopment Plan"); and

The Redevelopment Agency of the City of Stockton (the "Agency") is vested with responsibility pursuant to the Community Redevelopment Law (Part 1 of Division 24 of Health and Safety Code of the State of California) (the "Law") to implement the Redevelopment Plan in the Project Area; and

The Agency, in causing redevelopment of the Project Area, seeks to make housing available at affordable housing cost to very low, low and moderate income households; and

The Agency has established the Low and Moderate Income Housing Fund for the Project Area and throughout the City (the "Housing Fund") pursuant to California Health and Safety Code section 33334.3; and

Eighth Street Housing L.P., a California limited partnership (the "Borrower"), has entered into a purchase agreement to purchase the property located at Eighth and "D" Streets, APN 171-110-18 (the "Site") which is located within the Project Area. The Borrower intends to rehabilitate the existing on the Site at an affordable housing cost to very low, low and moderate income households (the "Development"); and

The Borrower desires to borrow from the Agency One Million Nine Hundred Thirty-five Thousand Dollars ($1,935,000) (the "Agency Loan") to be used in part for rehabilitation of the Development; and

The Development will benefit the Project Area and serve major goals and objectives of the Redevelopment Plan by increasing the amount of housing available at affordable housing cost in the community, thereby decreasing the market pressure on the supply of affordable housing in the community and the Project Area, and by alleviating blight in the Project Area; and

City Atty: [Signature]
Review: [Signature]
Date: June 23, 2010
The Development will be consistent with the implementation plan adopted by the Agency pursuant to Health and Safety Code section 33490 (the "Implementation Plan"); and

Other reasonable means of private or commercial financing of the acquisition of the Development site is not available; and

Agency staff has prepared a Loan Agreement, Promissory Note, Deed of Trust and Regulatory Agreement (the "Loan Documents") between the Agency and the Borrower setting forth the rights and obligations of the parties with respect to the Agency Loan; and

The proposed Loan Documents are on file with the Agency Secretary; and

Future lenders for the Development may require subordination of the Agency Loan documents to their loans; and

The California Environmental Quality Act, Public Resources Code section 2100, et seq., ("CEQA"), imposes no conditions on the Agency's consideration and approval of this Agreement, because the Development is not subject to CEQA pursuant to general rule Section 15061(b)(3) of the CEQA Guidelines; and

By Staff Report dated June 29, 2010, accompanying this resolution and incorporated herein by this reference (the "Staff Report"), the Agency has been provided with additional information upon which the findings and actions set forth in this resolution are based; now, therefore,

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

1. That based on information and analysis set forth in the above recitals and contained in the Staff Report, the Agency hereby finds and determines that the above recitals are true and correct and have served as the basis, in part, for the findings and actions of the Agency set forth below.

2. The Agency finds that the Agency Loan is consistent with the Implementation Plan.

3. Other reasonable means of private or commercial financing of the acquisition of the Development site is not available.

4. The Agency hereby approves the Agency Loan and allocates One Million Nine Hundred Thirty-five Thousand Dollars ($1,935,000) of Low and Moderate Income Housing Set-Aside dollars to fund the Agency Loan.

5. The Agency hereby approves the Loan Documents.
6. The Agency hereby approves subordination of the Agency Loan Documents to future financing if the Agency's Executive Director is satisfied that the requirements of California Health and Safety Code section 33334.14(a) have been met, and authorizes the Agency Chairperson or Agency Executive Director to execute subordination agreements on behalf of the Agency in a form approved by the Agency signatory and Agency Counsel, such approval to be evidenced by the execution of such agreement, and provided such agreements give the Agency notice and time to cure any Borrower defaults under the senior lender loan documents.

7. The Executive Director is hereby authorized to execute the Agency Loan Documents, substantially in the form on file with the Agency Secretary, with any minor modification deemed desirable or necessary by the Agency Chairperson or Agency Executive Director and by Agency Counsel.

8. The Agency hereby allocates $1,935,000 of the Redevelopment Agency Low/Mod Income Housing Funds to this project.

9. The Agency hereby authorizes the Agency Executive Director to take such other actions and execute such other documents as are appropriate to effectuate the intent of this resolution and the Agency Loan Documents.

PASSED, APPROVED AND ADOPTED ________________.

Ann Johnston, Chairperson of the Redevelopment Agency of the City of Stockton

ATTEST:

Katherine Gong Meissner, Secretary of the Redevelopment Agency of the City of Stockton