

M E M O R A N D U M

DATE: October 17, 2018

TO: Board of Directors
The Long Beach Community Investment Company

FROM: Linda F. Tatum, President *Pahola W. For*

SUBJECT: Approval of Additional Loan Funds to Clifford Beers Housing, Inc.
for the Development of 1836-1852 Locust Avenue (CD 6)

RECOMMENDATION:

1. Approve additional funding up to \$800,000 to provide a total loan of up to \$3,825,000 to Clifford Beers Housing, Inc. to provide gap financing for the development of the properties at 1836-1852 Locust Avenue; and
2. Authorize the President or designee to execute any and all documents necessary to implement the amended Disposition and Development and Loan Agreements.

DISCUSSION

On February 21, 2018, the Board approved an additional \$200,000 in funding for a total loan of \$3,025,000 to Clifford Beers Housing, Inc. (CBH) to provide gap financing for the development of a 48-unit affordable apartment project located at 1836-1852 Locust Avenue (Project). A site map (Attachment A) and a copy of the staff report (Attachment B) are attached for your reference. Since Board approval, the Project officially received a funding award in the amount of \$3,360,000 from the Community Development Commission of the County of Los Angeles, and was awarded 9% Federal Low Income Housing Tax Credits (Tax Credits).

The LBCIC loan approval was contingent upon CBH obtaining at least three general contractor bids for LBCIC's review and approval prior to selecting a general contractor. CBH obtained three bids in February 2018, and with LBCIC approval, selected Dreyfuss Construction (Dreyfuss) to be the general contractor for the Project. Recognizing substantial rises in construction costs, CBH requested an updated cost estimate from Dreyfuss in July 2018. Dreyfuss estimated the direct construction costs at approximately \$16,130,000, which was approximately 5.4% higher than the estimate provided just five months earlier. Furthermore, according to CBH, Dreyfuss anticipates that construction costs could increase another 8-10% between the July 2018 estimate and the end of the year when the contract with Dreyfuss is expected to be executed. As

such, CBH is requesting an additional \$800,000 in financial assistance from the LBCIC to fill the anticipated gap in construction costs.

Staff requested Keyser Marston Associates (KMA) to review the request. KMA's analysis (Attachment C) of CBH's August 2018 pro forma, and Dreyfuss' July 2018 construction costs, substantiated an additional financial gap of approximately \$800,000. However, CBH's direct cost estimate includes a 20% contingency, in comparison to the typical 5-10% direct cost contingency allowance that KMA usually assumes. Based on experience with construction cost increases for similar projects currently under construction, KMA and staff are amenable to allowing the higher than typical contingency allowance to remain in the Project budget, provided that additional LBCIC financial assistance is approved with conditions.

Based on KMA's analysis, staff recommends approval of a loan in an amount of up to \$3,825,000, contingent upon the following:

- CBH must provide an executed contract with the general contractor clearly identifying the increase in construction costs from the July 2018 estimate;
- Achievable costs saving measures discussed with CBH must be reflected in the executed contract;
- All other development cost contingency allowances must be disbursed prior to disbursement of the additional LBCIC financial assistance;
- Any of the additional LBCIC financial assistance that remains unspent at the end of construction will be decommitted from the Project.

In addition, the development of the project supports the implementation of Housing Element Program 4.1 (Affordable Housing Development Assistance), and is therefore supported by staff. If approved, the loan will still be structured as a residual receipts note with a 3% interest rate and a 55-year term.

SUGGESTED ACTION:

Approve Recommendation.

LFT:PU:MS

R:\LBCIC\Staff Reports\2018\October\Clifford Beers Locust Loan Increase.doc

Attachments:

- A. Site Map
- B. February 21, 2018 Staff Report
- C. September 2018 KMA Analysis