



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

R-22

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

September 14, 2004

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Amendment to Loan Agreement for the Development of the Pacific Apartments (District 1)

DISCUSSION

On March 25, 2003, City Council approved a construction loan of \$1,850,000 (Loan Agreement) to Squier Properties and the Long Beach Affordable Housing Coalition (Developer) for the development of Pacific Apartments (Development), a 42-unit apartment complex located on the west side of Pacific Avenue at 16th Street, in the Central Long Beach Redevelopment Project Area. A copy of the site map (Attachment A) and the March 25, 2003, City Council letter (Attachment B) are attached. On December 2, 2003, City Council approved an amendment to the Loan Agreement to allow the disbursement of funds for acquisition, predevelopment, and construction costs. A copy of the December 2, 2003, City Council letter (Attachment C) is attached. On January 20, 2004, Effective Housing Solutions LLC (Developer), which succeeded Squier Properties in the transaction, acquired the development site with \$1,500,000 from the approved loan.

The Developer received an allocation of low-income tax credits from the California Tax Credit Allocation Committee (TCAC) on June 16, 2004. The Developer strengthened the April TCAC application by partnering with Advance Development & Investment, Inc. (ADI) to construct the Development. ADI is an owner/builder and will be both the co-general partner and the general contractor for the Development.

Total development costs have increased due to significant increases in construction costs and contingency, increased private financing terms, changes in the TCAC Qualified Allocation Plan, and decreased rent levels to accommodate redevelopment replacement units. The most significant increases are due to increased construction costs and reduced rent levels. The key increases are as follows:

- Material and labor cost increases have impacted the construction industry in recent months, particularly in the areas of wood framing and steel, which are used extensively in this development. City staff and Keyser Marston Associates, the City's financial consultant, have validated that construction costs have increased approximately 20 percent over the last six months. This has had a negative financial impact on all new construction developments in the region, including Pacific Apartments. The payment of prevailing wages has also increased project costs.

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- Financing costs have increased due to recent Federal Reserve Board actions, increasing both long and short-term interest rates, which is likely to continue over the coming months.
- The TCAC Qualified Allocation Plan (QAP) was revised in March 2004 and requires a higher ratio of public subsidy for all projects. The revised QAP also includes more rigorous underwriting standards, reducing the project's ability to carry additional conventional debt.
- Reduced rent levels will allow the City to count all 42 units of the development towards its inclusionary housing requirements and needed redevelopment agency replacement units. The Pacific Apartments is located in the Central Redevelopment Project Area and the initial proforma called out only ten units whose rents allowed them to be counted as inclusionary or replacement units. A reduction in rents on all units to the inclusionary level creates a budget gap of approximately \$300,000 and is included in the additional request for funds.

As the Development is a deed-restricted development providing rental housing to low- and very-low income working families, the Development's cash flow is limited. Additional conventional debt cannot be added to cover any budgetary shortfall that has been caused by increased material and labor costs, increased financing costs, and reduced rents.

Therefore, the Developer has requested that the City amend the Loan Agreement to increase the loan amount from \$1,850,000 to \$3,680,000. The City is, and would remain, in a priority position on title and therefore control the disposition of the site so that predevelopment work can continue. The terms and conditions of the loan to the Developer will include appropriate protection of the City's interests.

This letter was reviewed by Deputy City Attorney Everett L. Glenn on August 17, 2004, and Budget Management Officer David Wodynski on August 16, 2004.

TIMING CONSIDERATIONS

City Council action is requested on August 24, 2004 to provide time to amend and execute the loan agreement and meet the November 15, 2004 construction start deadline imposed by TCAC.

FISCAL IMPACT

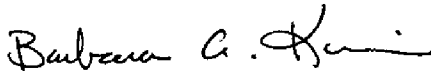
The proposed additional loan in the amount of \$1,830,000 will be funded by federal HOME funds. Sufficient appropriation is budgeted in the Community Development Grants Fund (SR 150) in the Department of Community Development (CD). There is no impact on the General Fund.

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IT IS RECOMMENDED THAT THE CITY COUNCIL:

Approve an amendment to the Loan Agreement to increase the loan amount from \$1,850,000 to \$3,680,000, authorize the City Manager to execute all documents necessary to consummate the transactions contemplated by the amended Loan Agreement, and authorize the execution of any and all additional documents necessary or appropriate in connection therewith.

Respectfully submitted,



for MELANIE S. FALLON
DIRECTOR OF COMMUNITY DEVELOPMENT

APPROVED:



GERALD R. MILLER
CITY MANAGER

MF:EBS:JG:DS
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Attachments: Attachment A – Site Map
Attachment B – March 25, 2003, City Council Letter
Attachment C – December 2, 2003, City Council Letter