



TO: T.C. Broadnax, City Manager
FROM: Ricardo Noguera, Director, Community and Economic Development Dept.
Carey Jenkins, Housing Manager, Community and Economic Development Dept.
COPY: City Council; City Clerk
SUBJECT: Resolution authorizing execution of a Loan Agreement, Deed of Trust,
Promissory Note and Regulatory Agreement to receive \$3 million in City UDAG
Program Income Funds for Valhalla Hall project.

DATE: August 16, 2016

SUMMARY:

Authorizing the execution of a loan agreement, the deed of trust and promissory note and the regulatory agreement with the Tacoma Community Redevelopment Authority (“TCRA”) for use of \$3 million in City Urban Development Action Grant (UDAG) program income funds, pending approval from City Council, to assist with the development of the Valhalla Hall project (“Project”).

STRATEGIC POLICY PRIORITY:

- Strengthen and support a safe city with healthy residents.
- Ensure all Tacoma residents are valued and have access to resources to meet their needs.
- Foster a vibrant and diverse economy with good jobs for all Tacoma residents.
- Cultivate a vibrant cultural sector that fosters a creative, cohesive community.
- Assure outstanding stewardship of the natural and built environment.

BACKGROUND:

The loan presented today is a result of two years of planning and pre-development work related to the Project. Completion of the Project will address many policy points included in the Hilltop Subarea Plan to include: creating affordable, healthy, mixed-use, mixed-income housing; increasing the availability of quality affordable housing units to households earning no more than 80% of the area’s median income level; creating local employment opportunities; and implementing catalytic development projects in the Hilltop. In addition the project also serves to redevelop a previously foreclosed property along the MLK corridor that would otherwise remain vacant, underutilized and a nuisance to the surrounding community.

On July 14, 2016 the TCRA Board approved the negotiation and execution of a loan agreement for the use of up to \$3 million in UDAG funds for the Valhalla Hall project.

The TCRA presented their recommendation for execution of the loan agreement and transfer of \$3 million in UDAG program income funds to the TCRA to be drawn down for project construction and permanent financing costs at the Community Vitality and Safety Committee meeting held on August 11, 2016.



Project Summary

On January 9, 2014, the TCRA Board authorized staff to bid on the 3-story vacant commercial building located at 1216-1218 Martin Luther King, Jr Way (“Valhalla Hall”) at a foreclosure sale. On the day of the auction, January 17, 2014, TCRA was the successful bidder and acquired the property at a cost of \$305,080.84 using Community Development Block Grant (“CDBG”) funds.

Subsequent to purchasing the property, the TCRA looked at a number of options including a commercial opportunity for a reuse project. After realizing this option did not work financially the TCRA looked to create a housing reuse project with an affordable component in order to remain consistent with the Hilltop Subarea Plan. In September of 2014 BLRB Architects performed a feasibility study of the Project and provided the TCRA with a conceptual design and estimated cost proforma.

Project Description

The project will involve the construction of a four story residential building containing: twenty-six (26) dwelling units; two (2) of which are work/live units. The mix of residential units will provide rental housing for a variety of income levels including nine (9) units set aside for households at 50% of the area median income (“AMI”) under a long-term covenant agreement and five (5) units set aside for households at 80% of AMI which will convert to market rate units at the end of initial tenancy.

To assist staff in the development of the project, a team was assembled through the issuance of three separate procurement documents seeking development project management, architectural and general contractor services. As a result, TCRA entered into three separate agreements with Bellwether Housing, SMR Architects (“SMR”) and Rafn Construction (“Rafn”). It should be noted that up to the completion of the initial construction phase drawings it was the intent of the development team to build an adaptive reuse project that would retain many of the key elements of the existing structure. However due to the fact the majority of the interior space had been gutted, the roof is structurally unsound and the cost to retain the front façade along MLK Way is cost prohibitive a decision was made to demolish the existing building and pursue a new construction Project.

Project Financing

The current estimated total development cost (“TDC”) of the Project is approximately \$7.2 million. This TDC is higher than previous estimates provided in the original schematic proforma created in 2014 and a subsequent cost analysis conducted at the time initial construction drawings were produced. However, further analysis by staff shows the per unit cost is consistent with similar affordable housing projects funded by the TCRA in the last two years.



UDAG Loan Terms

- Loan Amount: • \$3 Million
- Interest Rate: • 0%
- Maturity: • 30 Years
- Terms: • Repayment based on net cash flow and residual receipts.
 • Second lien position to the primary bank lender.
 • Shares with TCRA equity contribution.
 • Split 60/40 with UDAG receiving higher percentage.
 • UDAG loan will be paid in full by year 30.

ISSUE:

At issue is the Council’s authorization of the execution of a loan agreement, the deed of trust and promissory note and the regulatory agreement with the TCRA and transfer of \$3 million in UDAG program income funds to assist with the development of the Project.

ALTERNATIVES:

The alternatives presented in this report constitute one course of action. However, another option does exist. This would include not approving the transfer of the UDAG funds to the TCRA. Note, a change of this nature would result in a discontinuation of the Project. To-date the TCRA has spent approximately \$550,000 in Federal CDBG and HOME funds to pay for the costs associated with the acquisition and predevelopment of the Project.

RECOMMENDATION:

Implementing the recommendations identified in this report will allow staff to draw down UDAG program income funds to pay for the Project’s construction costs.

FISCAL IMPACT:

As a result of taking the recommended action the City will transfer \$3 million in UDAG program income funds to the TCRA to be drawn down for project construction and permanent financing costs.



EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
1195-UDAG UDAG Fund	852400	5330100	3,000,000
TOTAL			\$3,000,000

REVENUES- FUNDING SOURCES

	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
1195-UDAG Fund Balance	852400	4300000	3,000,000
TOTAL			\$3,000,000

POTENTIAL POSITION IMPACT:

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
TOTAL			

This section should only be completed if a subsequent request will be made to increase or decrease the current position count.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: \$3,000,000

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? YES

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED.