



**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:** Community Vitality and Safety Committee

**SUBJECT:** Execution of a Loan Agreement to receive \$3 million in City UDAG Program Income Funds for Valhalla Hall project.

**DATE:** August 11, 2016

**SUMMARY:**

The purpose of this memo is to provide the Community Vitality and Safety Committee (“Committee”) an opportunity to review and comment on the City executing a loan agreement with the Tacoma Community Redevelopment Agency (“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”).

**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.

**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

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|----------------|--|
| Loan Amount:   | • \$3 Million  |
| Interest Rate: | • 0%   |
| Maturity:      | • 30 Years   |
| Terms:         | <ul style="list-style-type: none"><li>• Repayment based on net cash flow and residual receipts.</li><li>• Second lien position to the primary bank lender.</li><li>• Shares with TCRA equity contribution.</li><li>• Split 60/40 with UDAG receiving higher percentage.</li><li>• UDAG loan will be paid in full by year 30.</li></ul> |

### **ISSUE:**

At issue is the Committee’s review and comment on the execution of a loan agreement with the TCRA and transfer of \$3 million in UDAG program income funds to assist with the development of the Project.

It is anticipated that Council will be asked to approve the transfer of these UDAG funds on August 16, 2016 at one of its regularly scheduled Council meetings.

### **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.

**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.

**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.