LOAN TO SERVICE FIRST OF NORTHERN CALIFORNIA FOR THE REHABILITATION OF THE COVENTRY APARTMENTS, 4825 KENTFIELD ROAD

RECOMMENDATION

It is recommended that City Council approve a motion:

1) Approving a $1,843,440 Neighborhood Stabilization Program loan to Service First of Northern California to rehabilitate the Coventry Apartments located at 4825 Kentfield Road;

2) Approving a Relocation Plan; and

3) Authorizing the City Manager, or his designee, to take whatever actions are necessary and appropriate to carry out the purpose and intent of the motion.

SUMMARY

On August 13, 2013, the City Council approved a $1,710,800 Neighborhood Stabilization Program (NSP) loan to Service First of Northern California (Service First) to acquire the Coventry Apartments, a 46-unit apartment building at 4825 Kentfield Road (Attachment A - Vicinity Map). After acquiring the property, a comprehensive assessment of the building was conducted to determine the extent of the repairs that are needed. Service First is now requesting an additional $1,843,440 loan to undertake the rehabilitation. It is recommended that the loan be funded with NSP funds which the City received from the U.S. Department of Housing and Urban Development (HUD) specifically to assist with this type of project. Upon completion of the rehabilitation, the project will provide 9 units affordable to households with incomes at or below 30 percent of the Area Median Income (AMI) and 36 units for households with incomes at or below 50 percent of AMI. The remaining unit will be occupied by an on-site manager.

The Council is also being asked to approve a Relocation Plan (Attachment B - Relocation Plan) for the project. Federal regulations require that a relocation plan be prepared and adopted by the local legislative body when a project is being proposed for occupied housing units. The Relocation Plan identifies the relocation requirements and benefits, as specified by federal regulations, for the sixteen households that are currently living in the apartment complex who will be temporarily displaced while the rehabilitation takes place.

DISCUSSION

Background

The City has received two allocations of NSP funds known as NSP1 and NSP3 from HUD to help stabilize neighborhoods that have been affected by foreclosures. The program established by the
City for use of the NSP funds includes the following activities: acquisition, rehabilitation and resale of foreclosed single-family foreclosed homes; acquisition, rehabilitation and rental of foreclosed properties; and down-payment assistance to households purchasing a foreclosed home.

The NSP guidelines require that at least 25 percent of the original grant and 25 percent of the program income generated from the resale of property go to activities that benefit households earning not more than 50 percent of AMI, which in Stockton is $31,500 per year for a family of four. In order to meet this requirement, the Council approved the Acquisition, Rehabilitation, and Rental activity for NSP1 in November, 2008 (Attachment C - Resolution 08-0460) and for NSP3 in February, 2011 (Attachment D - Resolution 11-0041).

In August, 2013, Service First successfully negotiated the purchase of the Coventry Apartments as a project under Acquisition, Rehabilitation Rental activity. The Council approved a $1,710,800 loan for the purchase of the complex. The apartments, which were constructed in 1964, sit on approximately one acre and consist of 46 units (seventeen one-bedroom and twenty-nine two-bedroom units).

Present Situation

Since acquiring the property, Service First has conducted a comprehensive assessment of the property’s condition and developed a detailed scope of the repair work that needs to be undertaken. The assessment showed that a significant amount of work needs to be undertaken and that the total cost for the work identified in the assessment is estimated at $1,498,700.

While there have been updates to the units since they were constructed, no major renovations have been completed. The rehabilitation will include a new roofing system to change the current flat roof to a sloped roof. While repairing the flat roof could reduce the project cost by up to $80,000, the sloped roof will reduce long term maintenance costs and improve the look of the complex. The rehabilitation will also include major improvements to the interior of the units, including new cabinets, counter tops, and appliances in the kitchens, new flooring throughout the units, updates to the bathrooms, and installation of new heating and air conditioning units in some of the apartments. Exterior improvements will include a new façade, new fencing, improvements to the landscaping, repaving of the parking lot, ADA accessibility improvements, and the installation of playground equipment (Attachment E - Rendering). Upgrades to the complex include installation of a new security system and wireless internet which will be available to all tenants.

Service First is requesting a loan of $1,843,440 to cover project costs. In addition to the $1,498,700 for construction, the requested loan amount includes $45,000 to temporarily relocate tenants who are currently living in the complex, a ten percent contingency, and a developer fee. If the requested loan is approved, the total City loan will be $3,554,240.

City of Stockton Acquisition Loan (Resolution 2013-08-13-1201) $1,710,800
City of Stockton Rehabilitation Loan (Proposed) $1,843,440
Total City Loan $3,554,240

The Acquisition and Predevelopment Loan was a zero percent, one-year loan. If the rehabilitation loan is approved, it will be combined with the rehabilitation loan for one loan of $3,554,370. Because
the property was in foreclosure when Service First purchased it, the project is eligible to use NSP funds. It is therefore recommended that the loan be funded with NSP funds and that the loan be provided as a 55-year, 3 percent interest loan with annual repayments of 50 percent of residual receipts.

Nine of the units will be rented to households with incomes at or below 30% of the AMI. These units will help the City meet its legal obligations under the Price Case settlement agreement which requires that low-income housing units be constructed or rehabilitated to replace those destroyed in the downtown area during the early 2000’s. As required by NSP, the remaining units will be rented to households with incomes at or below 50% of AMI, with the exception of one unit which will be occupied by an on-site manager.

Because of the extent of the rehabilitation, the sixteen households currently residing in the apartment complex cannot stay in their units during construction. Therefore, as required by federal regulations, a Relocation Plan identifying the relocation process was prepared by Service First. The Plan was reviewed by staff and found to meet the requirements.

It is anticipated that the tenants will be temporarily relocated within the complex. Vacant units will be rehabilitated first, and then tenants will be moved into those units. Tenants will have the right to move back into their original units or they may choose to stay in their new units. The tenants will be provided assistance moving and all costs associated with the moves, including the cost of professional movers and utility hookup fees, will be paid by Service First from the City’s loan.

This project is furthering prior revitalization efforts and significant investment that the City previously made in the Kentfield neighborhood. In 2008, the City loaned $6.3 million to Visionary Home Builders for the acquisition and rehabilitation of the 44-unit apartment complex immediately south of this property. Also in 2008, loans totaling $9.6 million were made to Bridge Housing to acquire and rehabilitate a 90-unit apartment complex at 4545 Kentfield Road. The City also funded improvements to the neighborhood park across the street from the project, installed traffic calming measures and conducted targeted code enforcement efforts. This project will further assist in contributing to improving the neighborhood, which in the past has shown signs of disinvestment and poorly managed multi-family properties.

FINANCIAL SUMMARY

No General Funds dollars will be used for this project.

Sufficient funds in the amount of $1,843,440 are available in the NSP1 fund balance in Account Number 063-8526-640.20.51 (NSP1 Loan Expenditure Account).

Attachment A - Vicinity Map
Attachment B - Relocation Plan
Attachment C - Resolution 08-0460
Attachment D - Resolution 11-0041
Attachment E - Rendering of Proposed Project