

## STAFF REPORT

**DATE:** June 21, 2011

**TO:** City Council  
Redevelopment Agency

**FROM:** Danielle Foster, Housing & Human Services Superintendent  
Elvia Garcia-Ayala, Community Services Director

**SUBJECT:** Pacifico Affordable Housing Project- Property Management & Predevelopment

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### **Staff Recommendation to the City Council**

Adopt the proposed resolution (Attachment 1), authorizing staff to execute a Property Management Contract with Yolo County Housing (YCH) for an amount not to exceed \$4,500 per month plus the cost of necessary time and materials for approved project repairs, in order to ensure ongoing and adequate management and maintenance of the Pacifico property, and including the provision of cooperative/mutual housing trainings and consultant time as needed to build community at Pacifico.

### **Staff Recommendation to the Redevelopment Agency**

Adopt the proposed resolution (Attachment 2), authorizing a loan of \$200,000 in Redevelopment Housing funds for use on predevelopment and outreach expenses related to YCH hosting resident charette meetings, contracting an architect and engineer to draft plans in response to design discussions with residents, the Davis Cooperative Community Network (DCCN), and the City, and review and consideration of design options in light of recommendations from the California Center for Cooperative Development (CCCD).

### **Fiscal Impact**

#### **Expenses To-Date**

Processing this report is already budgeted for in existing staff time. Currently the City has invested \$2,589,889 in affordable housing funds at this property since its construction in the early 2000s, including the \$1.6 million advanced in March to protect the project from bank foreclosure. Property management and maintenance expenses of the project are currently dependent upon and paid through revenue from the project rents.

### **Rehabilitation**

Yolo County Housing's rehabilitation proposal included a cost quote of approximately \$1.8 million. The \$200,000 being requested by YCH for use in the predevelopment and outreach phase of the rehabilitation project is part of that original \$1.8 million estimate originally provided to the City, reducing future YCH requests to an estimated \$1.6 million. The \$200,000 being recommended would be paid for from Redevelopment Housing Set-Aside Funds.

### **Council Goal(s)**

Actions in this staff report support the goal of Community Strength and Effectiveness, specifically working to accomplish the guiding principle of "Establish and maintain an inventory

of permanently affordable housing units.” Actions related to Pacifico are necessary to maintain this affordable housing project in the city’s inventory of affordable housing units.

### **Background**

Pacifico is a 112-bed, four-building cooperative housing project located at 1752 Drew Circle. It was built to fulfill a portion of the affordable housing requirement for the surrounding subdivision. The project’s property was provided through the City of Davis’s Inclusionary Housing Ordinance, and it received financial assistance from the City’s Housing Trust Fund, yielding rental housing that serves low and very-low income households, with an informal focus on the local student population.

As of March 2010, approximately half of the 112 beds were occupied, two of the four buildings were closed, and the project had not made payments on its mortgage loans since fall 2009. Pacifico was in foreclosure on its primary loan from First Northern Bank. In order to protect the property for affordable housing, the City advanced \$1.6 million for the purchase of the notes First Northern Bank held on the project and saved Pacifico from bank foreclosure. In doing this, the City became the primary lender on the Pacifico property, subsequently foreclosing and taking ownership of the troubled project.

In preparation for the foreclosure and potential ownership of the project, the City identified Yolo County Housing as its partner to rehabilitate the project and opted to contract with two entities for property management and maintenance of the project from January through June. During this period the City has been contracting with the California Center for Cooperative Development (CCCD) for property management and with YCH on the property maintenance. Details of the property management and maintenance are provided in the following section. With the close of the existing contracts, staff sees an opportunity for YCH to assume management of the property, in addition to its current maintenance responsibilities, as a means for it to build and strengthen resident relationships and expectations, as well as to demonstrate its commitment to increasing occupancy and community in the project. YCH is interested in providing the necessary professional property management and maintenance to the project and would look to local cooperative and mutual housing experts for resident and resident council trainings, as well as advice on system improvements and cooperative best practices. Recommendations from CCCD based on its six-month experience at Pacifico will be the starting point in the consideration of project program, policy, and design changes in upcoming months.

### **Analysis**

#### **Property Management**

When the City took ownership of the project in January, it was physically dilapidated both internally and externally, and there was abandoned furniture and food throughout the buildings. Buildings A and B (currently closed) had not been cleaned out prior to closure and were infested by rodents, there was overgrown landscaping, broken windows and door frames, a broken and leaking water pump system, issues with the fire suppression system in Building D (sprinklers and phoneline callouts), shower leaking and water damage, security issues with resident turnover and room locks, and generally poor physical upkeep of the property. On the management side of the project, there were issues over the governance and lease enforcement at the project, the disorganization of project financials, a low occupancy rate at Pacifico of between 30-40%, a lack of resident training and equipment provision for the preparation of large community meals, no standardization of lease terms, inconsistency in meal plan standards and delivery, resident

uncertainty of the project's future, and outstanding debt/organizational issues from the foreclosure and ownership change. The City, in contract with YCH and CCCD, has made strides in addressing the physical integrity of the project and initiated work on some management issues. Specifics of YCH and CCCD's work at Pacifico follow.

*Maintenance- Yolo County Housing (YCH)*

Shortly after the City taking ownership of Pacifico, YCH scheduled a few project walkthroughs to identify project maintenance and safety concerns. The City and YCH coordinated the hiring of a professional landscaper, who cleaned up landscaping at the project. Simultaneously YCH staff worked to start addressing immediate health, safety, and liability issues, and got to work on preparing vacant units for new resident occupancy. As part of these initial steps, YCH identified the need to take precautionary measures in closing off A and B Buildings to all persons, including personnel, until the rodents in the buildings could be exterminated and potential health risks could be addressed. Ultimately rodents in the buildings were exterminated and health risks mitigated so that the buildings could be cleaned out (furniture, food, etc.) and health warnings on the buildings could be removed. The buildings will continue to remain closed to accommodate the phasing of the rehabilitation and based on the current lack of occupancy.

YCH also coordinated with city staff and Davis Waste Removal in scheduling and hosting a community clean-up day April 9th. Six YCH management employees donated time to assist residents with interior and exterior cleaning and by facilitating their separation and disposal of items into a dumpster, recycling container, and donations bin. CCCD assisted with marketing the event and Davis Waste Removal provided the large dumpsters for the clean-up. This event was very successful and with help from YCH maintenance staff the following week, there was a significant amount of broken and abandoned items removed from Pacifico. The items removed at the resident work day and subsequently by maintenance staff totaled as follows:

- one truckload of donations
- 35 pounds of recycled e-waste
- 5.89 tons of waste

Additionally, YCH has addressed the issues noted previously regarding physical conditions of the buildings in the following manner:

- repaired the fire suppression system
- painted and prepared of all vacant rooms for occupancy
- replaced all of the old door locks on vacant units with coded locking systems that allow for a change in "lock code" at turnover without requiring additional expenses of changing the locks, providing safety to the new resident
- checked all building systems and replaced smoke detector batteries, as needed
- replaced and repaired broken windows, split door frames, and missing/broken screens
- addressed broken tile countertops and damaged flooring
- provided a temporary solution for leaking shower stalls to allow time for the project rehabilitation
- addressed the leaking water pump system

In its role under the maintenance contract, YCH has demonstrated commitment to the project and its long-term viability. YCH has stated its interest in assuming all of the property management responsibilities and is eager to get to work on increasing project occupancy. YCH has provided

before and after pictures and pictures from the clean-up day event that are included as Attachment 3 of this report.

*Property Management- California Center for Cooperative Development (CCCD)*

CCCD has worked at shoring up aspects of the cooperative housing, has made some recommendations to the City on future maintenance of the cooperative housing components, and plans to provide more information at month's end with the contract's current expiration. CCCD has strengthened the use and consistency of Resident Council meetings, providing technical assistance and support at those meetings. During its interim management of Pacifico, CCCD has put time and energy into:

- creating an updated project lease for new and renewing residents
- executing leases with new tenants (transitioning foster youth & 3 other new tenants, 2 more in progress) and residents who did not previously have an executed lease
- addressing tenant questions regarding lease terms and conveyance from the previous owner
- collecting resident income documentation
- staffing Resident Council meetings on a regular basis
- reviewing and updating job descriptions of the Pacifico resident coordinator positions
- developing and improving cooperative policies at Pacifico, particularly regarding resident labor, governance eligibility, and the meal plan.
- ensuring the completion of project marketing (Craigslist, UC Davis Community Housing Listing and flyers on campus, an ad in the DavisHousing.com, UCD Student Housing Office, UCD International Programs, and International House)

While CCCD has provided some training and guidance to the resident council related to the cooperative nature of the housing units, there is still much work to be done in improving the property management systems at Pacifico, as well as extensive marketing and outreach to increase project occupancy. During this past six-month period, vacancy at the project has continued to increase and project occupancy has decreased from approximately 35% to 26% of the total project (all four buildings), which is 55% of the two open buildings. This occupancy decrease has been in spite of an increased number of move-ins from the transitioning foster youth program, due to a funding surge with the mid-year approval of the state budget. CCCD has executed three new month-to-month leases (with residents outside of the transitional foster youth program) during its contract and has a few more pending.

During this past five-month period, CCCD has been able to refocus the policies and procedures of the cooperative components at Pacifico. Staff believes that utilizing the expertise of YCH in the project management of Pacifico could allow for better stabilization of the project, particularly given that their role is envisioned to be long-term with the rehabilitation and future control of the project, as directed by the City Council last November and demonstrated through the City-YCH Exclusive Negotiating Agreement (ENA). As property manager, YCH would be able to speak directly to inquiries from residents about future project plans and could provide a sense of continuity and ongoing community. There are also benefits in putting the burden of occupancy on YCH, who has a long-term stake in the project and its success. By utilizing YCH in this capacity, the project can contract with CCCD and/or other cooperative/mutual housing experts, as needed, to promote the cooperative/mutual housing-specific aspects of the project, including resident council trainings, meal preparation trainings, labor credit discussions, community gardening, etc. In fact, the additional flexibility in these trainings and consultants might provide

access to a wider range of experts available to the project in a way that is more specific to resident/project needs and allows those experts to focus on their specialty areas rather than standard property management activities. This is consistent with YCH's vision for the project and accessing cooperative/mutual housing expertise is something they recognize as an ongoing project need.

While retaining a property management company for this project rather than awarding the property to YCH through a disposition agreement ensures more City control, it will continue to be an additional drain on staff time and city resources. Specifically, the financial oversight and tracking that is necessary for the City to record all project revenues and all project expenditures of a third party has taken a significant amount of staff time for the first six months of this project. Staff is hopeful that reducing the city contracts on the project from two to one will reduce necessary staff time in oversight and coordination, but notes that final actions on a Disposition and Development Agreement (DDA) will alleviate significant amounts of staff time, as would a long-term land lease, perhaps to a slightly lesser amount.

### **Authorization of Predevelopment Funding**

As part of the Exclusive Negotiation Agreement with Yolo County Housing, the City is requiring that YCH complete outreach that includes charette meetings with existing residents and members of the cooperative/mutual housing community, architectural plans that can determine overall project costs and the tradeoffs of various design options and project amenities, and preliminary engineering work to identify design limitations based on existing systems and structural characteristics. Yolo County Housing has estimated that completion of the predevelopment and outreach phase will require \$200,000. This is based on the budgeted predevelopment expenses, as shown on the following page.

If funds are committed, the City would provide funding for this activity on a reimbursement basis after staff has reviewed the expenses, as is typical for all city housing projects. This amount is consistent with predevelopment expenses on other housing projects, which have ranged from \$200,000-\$250,000 in cost. Staff would recommend providing these funds as a contracted loan to the project that would remain unrecorded and would not start amortizing until rehabilitation of the Pacifico project is complete. As is typical with Davis affordable housing rental loans, staff is recommending the preliminary funding terms of 3% interest for 55 years. Once the project financials are more developed, these terms could improve for the Agency based on future negotiations with YCH. Providing this funding for YCH will fund the predevelopment stage of the project rehabilitation, provide for better design charette discussions of project options, and result in more complete information for the City and Agency to consider in the pre-construction stage of Pacifico's rehabilitation.

Pacifico Rehabilitation Predevelopment Budget

FEE

A. Architect

1. Schematic and Construction Documents (including attendance at design charette meetings)	\$	92,000.00
2. YCH Construction Administration Hourly Allowance*	\$	15,000.00
<u>Subtotal Consultant</u>	\$	<u>107,000.00</u>

B. Consulting Architect-- Concept Transition

Subtotal Consultant	\$	5,500.00
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C. Structural Engineer

1. Schematic and Construction Documents	\$	4,950.00
2. YCH Construction Administration Hourly Allowance *	\$	2,200.00
<u>Subtotal Consultant</u>	\$	<u>7,150.00</u>

D. Electrical Engineer

1. Schematic and Construction Documents	\$	16,390.00
2. YCH Construction Administration Hourly Allowance*	\$	1,650.00
<u>Subtotal Consultant</u>	\$	<u>18,040.00</u>

E. Mechanical/Plumbing Engineer

1. Schematic and Construction Documents	\$	19,470.00
2. YCH Construction Administration Hourly Allowance*	\$	1,650.00
<u>Subtotal Consultant</u>	\$	<u>21,120.00</u>

F. Cost Estimator / Project Budget

Subtotal Consultant	\$	5,720.00
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G. Landscape and Civil Engineer

1. Schematic and Construction Documents	\$	21,780.00
2. YCH Construction Administration Hourly Allowance*	\$	5,500.00
<u>Subtotal Consultant</u>	\$	<u>27,280.00</u>

SUB TOTAL \$ 191,810.00

YCH Project Management Fee \$ 8,190.00

**TOTAL \$ 200,000.00**

\*Yolo County Housing expenses of preparing documents and responding to inquiries as part of the design and bidding process.

**ADDITIONAL SERVICES**

Any additional services that may be required and performed by architect or their consultants will be negotiated and existing contract will be changed by Addendum

Once the predevelopment phase of Pacifico rehabilitation is nearing completion and staff has a more defined project scope and cost, staff and YCH will return to the City Council and Agency Board for review, comments and action. At that time Council and the Board will be able to review the complete rehabilitation proposal and will be asked to consider construction financing for the completion of the project.

**Attachments**

1. City Council Resolution Directing Staff to Execute a Management Contract with Yolo County Housing
2. Davis Redevelopment Agency Resolution Approving the Commitment of \$200,000 in Redevelopment Housing Funds for Predevelopment and Outreach Work by Yolo County Housing
3. Before and After Pictures of Maintenance Work by Yolo County Housing

**RESOLUTION NO. 11-XXX, SERIES 2011**

**RESOLUTION DIRECTING STAFF TO EXECUTE A PROPERTY MANAGEMENT AGREEMENT WITH YOLO COUNTY HOUSING FOR MANAGEMENT AND MAINTENANCE OF THE PACIFICO AFFORDABLE HOUSING PROJECT AT 1752 DREW CIRCLE**

WHEREAS, the Pacifico Affordable Housing project has had ongoing occupancy challenges, a number of City loan suspensions, required City advancement of funds to maintain project affordability and City investment, was subsequently in default on the City's project loan, and went to a foreclosure sale at which the City took ownership of the property; and

WHEREAS, the City received proposals from affordable housing providers interested in partnering with the City to maintain the affordability of the housing at the Pacifico property and the City selected Yolo County Housing for the rehabilitation of the project; and

WHEREAS, the City, as existing property owner, would like to contract with a professional affordable housing management company for the management, maintenance, and marketing of the Pacifico affordable housing project in order to ensure the project's long-term affordability and viability within the City's affordable housing program.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Davis that it authorizes and directs staff to complete the following:

1. Execution of a Property Management Agreement with Yolo County Housing for professional management of Pacifico, during the transition period for up to one year while negotiations are finalized for its rehabilitation and reuse, with the following conditions:
  - a. Yolo County Housing will manage Pacifico and continue to offer a resident meal plan, maintain a resident council, continue use of the community garden, and other aspects of cooperative/mutual housing at the project. The project budget shall continue to fund the needs of the cooperative aspects of the project, including the provision of resident trainings and additional support from the surrounding cooperative community.
  - b. As part of the Property Management Agreement, Yolo County Housing will manage Pacifico at a monthly cost not to exceed \$4,500, plus time and materials for maintenance, ensuring necessary administration, habitable living conditions, adequate maintenance, landscaping, and trainings/support for the cooperative aspects of the project.
2. Execution of all necessary agreements and budget adjustments that are required to enter into the Property Management Agreement, as detailed in Item 1.

PASSED AND ADOPTED by the City Council of the City of Davis this 21<sup>st</sup> day of June, 2011, by the following vote:

AYES:

NOES:

ATTEST:

Joseph F. Krovoza  
Mayor

Zoe S. Mirabile, CMC  
City Clerk

**RDA RESOLUTION NO. XXXX**

**RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY OF DAVIS  
AUTHORIZING A LOAN OF \$200,000 TO YOLO COUNTY HOUSING FOR  
PREDEVELOPMENT WORK, INCLUDING PROJECT OUTREACH AND DESIGN,  
FOR THE REHABILITATION OF  
THE PACIFICO AFFORDABLE HOUSING PROJECT AT 1752 DREW CIRCLE**

WHEREAS, the Pacifico Affordable Housing project has had ongoing occupancy challenges, a number of City loan suspensions, required City advancement of funds to maintain project affordability and City investment, was subsequently in default on the City's project loan, and went to a foreclosure sale at which the City took ownership of the property; and

WHEREAS, the City received proposals from affordable housing providers interested in partnering with the City to maintain the affordability of the housing at the Pacifico property for low and very-low income households; and

WHEREAS, the City selected Yolo County Housing for the rehabilitation of the project; and

WHEREAS, the Agency has determined that assisting in the construction and preservation of affordable housing both inside and outside of the project area contributes to the local affordable housing stock and provides a benefit to the community through the disbursement of affordable housing; and

WHEREAS, the City, as part of its Exclusive Negotiating Agreement with Yolo County Housing, is requiring Yolo County Housing to conduct charette meetings with Pacifico residents and members of the local cooperative community, in an effort to consider available design options for the project, including amenities to support the cooperative components of the project; and

WHEREAS, as is typical with the project predevelopment stage and consistent with City and Agency expectation, Yolo County Housing is working to further define the scope and cost of the project during this initial phase of the project, which requires architectural and engineering contracts.

NOW, THEREFORE, BE IT RESOLVED by the Agency Board of the Redevelopment Agency of the City of Davis that it authorizes a \$200,000 loan from the Agency's Housing Set-aside Funds (Fund 954) to Yolo County Housing for predevelopment expenses on the Pacifico rehabilitation project and directs staff to complete the following:

1. Execution of loan documents with Yolo County Housing for \$200,000 to be used on a reimbursement basis for predevelopment expenses on the Pacifico rehabilitation project. Terms of this loan shall be as follows:
  - a. A 55-year term with 3% simple interest, initiating amortization once rehabilitation of the project is complete.

- b. Predevelopment work shall be completed consistent with the City of Davis Exclusive Negotiating Agreement terms on the project, including:
    - Yolo County Housing will work with Pacifico residents, representatives of Davis Cooperative Community Network (DCCN) and city staff, to further design common areas of the project that could include a community commercial-grade kitchen and large community gathering/eating space.
    - Yolo County Housing will commit to continued communication with residents and will work with the Resident Council and the California Center for Cooperative Development in the scope of the renovation, design details, house rules, and other areas identified by Yolo County Housing and city staff.
    - Yolo County Housing and city staff will continue to negotiate the overall cost of the project, balancing available city funds with project efficiency, appropriate construction costs, and reasonable project amenities
  - c. The borrower will be required to submit and assign all predevelopment plans, work product, and other documents, along with any necessary third-party consent forms, to the Agency as security for the loan.
  - d. Predevelopment work on the project is expected to be complete no later than July 1, 2012, with construction commencing shortly thereafter.
2. Execution of all necessary agreements and budget adjustments that are required to provide the initial \$200,000 in predevelopment funding, as detailed in Item 1.

PASSED AND ADOPTED by the Board of Directors of the Redevelopment Agency of the City of Davis on this 21<sup>st</sup> day of June, 2011, by the following vote:

AYES:

NOES:

Joseph F. Krovoza  
Board Chairperson

ATTEST:

Zoe S. Mirabile, CMC  
Board Secretary

“Before and After” Pictures of Maintenance Work by Yolo County Housing

Flooring seams “before” in multiple places through Pacifico (lifting, torn, etc.) -



Flooring seams “after” work by YCH -



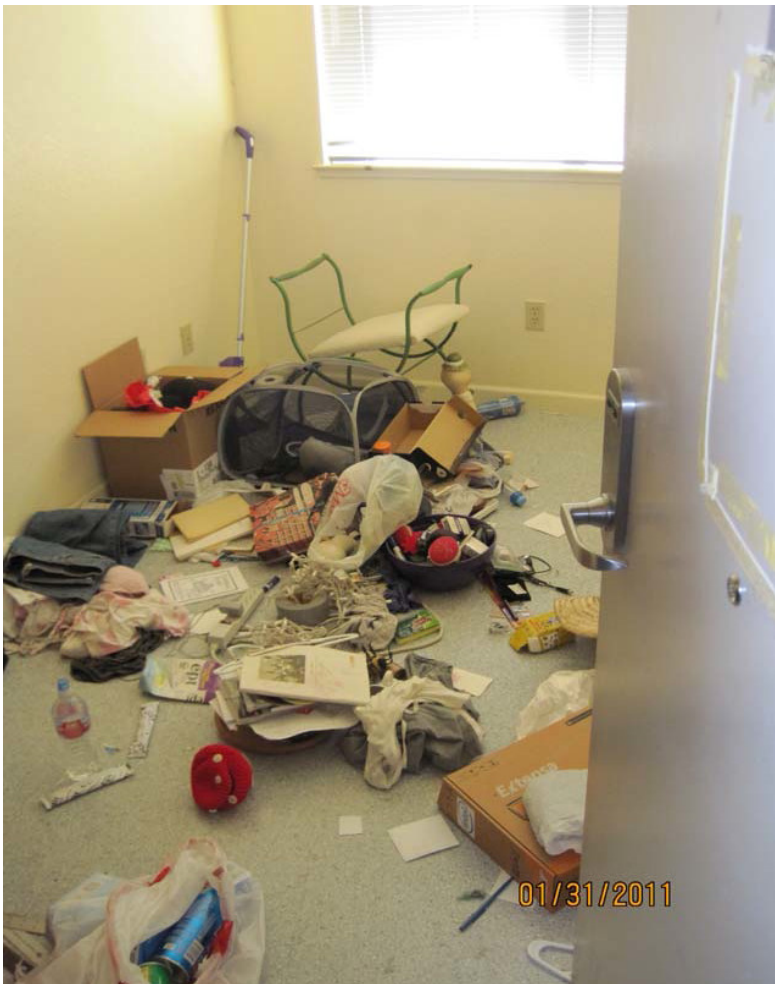
Toilet stalls “before,” with grim, buildup, etc. –



Toilet stalls “after” work by YCH –



Vacant rooms “before,” with trash, abandoned items, broken locks, etc. –



Vacant rooms “after” work by YCH –



**Pictures from YCH-planned and staffed Resident Clean-up Day -**

YCH Staff and a Pacifico Resident Coordinator in the Clean-up Day dumpster  
(Other residents not pictured for privacy reasons)



YCH Management Staff cleaning Pacifico

