



MEMORANDUM

To: Molly Rattigan, Deputy County Executive Officer
Nancy Johnson, Housing and Community Development Program Manager
Silva Darbinian, Deputy County Counsel

CC: Barbara Kautz and Isabel Brown, Goldfarb and Lipman, Counsel to County of Napa

From: Liz Tracey, Senior Principal, LeSar Development Consultants

Date: August 8, 2018

Re: Review of Turley Flats - Loan Increase Request

Project Background

Turley Flats ("Project") is an affordable housing development under construction in St. Helena, CA by Calistoga Affordable Housing ("CAH"). On June 13, 2017, the Board of Supervisors of the County of Napa ("County") approved a loan in the amount of \$650,000 to help finance the 8-unit rental Project. Since beginning construction in October of 2017, CAH has experienced unanticipated costs to the Project's budget. To cover the costs increases, CAH has received \$135,000 from the City of St. Helena ("City"), and now is requesting in additional funding of approximately \$148,000 from the County.

The Project site is on a 9,500 square foot lot at 1105 Pope Street, St. Helena, donated by local vintner Larry Turley. The site that had been improved with an occupied single family building that was not code-compliant. Once complete, the Project will provide 8 apartment units using a modular construction design. All units will be affordable to low-income families earning 75% of area median income ("AMI").

The total development budget at close of financing in 2017 was approximately \$3.1mm, with funding from the sources detailed below. As of July 8, 2018, just under \$1.5mm remained in development sources, while total remaining development costs stood at about \$1.65mm. According to information provided by CAH, the additional amount needed to bring the project budget back into balance is estimated at \$152,756.

Sources of Funding	At Close 7/21/17	Balance at 7/5/18
City of St. Helena Loan	\$700,000	\$60,000
City of St. Helena Loan Increase	\$135,000	\$20,924
Napa County Loan	\$650,000	\$65,000
Poppy Bank Loan	\$1,400,000	\$1,183,404
Cash on Hand	\$18,000	\$18,000
Gasser Foundation	\$150,000	\$150,000
TOTAL	\$3,053,000	\$1,497,328
Remaining Budget Expenses		\$1,650,084
Budget Gap*		\$152,756

* This amount is \$5,000 higher than the \$148,000 requested. CAH included a \$5,000 grant for landscaping work without adding the cost of that work into the development budget, so this development source has been excluded from our analysis.

Other than the Gasser funding, the other development subsidies have been drawn down and the Project needs to begin advances under its construction loan with Poppy Bank. Under the terms of the construction loan agreement, the budget must show sufficient funds to complete the Project before it will allow additional draws. The Project's modular units are ready to be installed at the site once the construction budget can be brought into balance.

The cost overruns are the result of several factors, including:

- 1) the delay of the construction start date, triggering price increases under the modular construction contract and additional relocation costs to house the original building's tenant until construction is complete,
- 2) changes to the architectural drawings during the final phases of the building permit process which increased building foundation costs,
- 3) the cost to remediate underground soil and water contamination was not detected by environmental reviews conducted before closing, and
- 4) underground water and sewer pipe configurations that required rerouting to connect to the Project.

Recommendation

Based on LDC's review of the Turley Flats proposal, we recommend a loan increase in the amount of \$148,000. In conversations with County staff, staff at the City of St. Helena have indicated funds will be available from the City to pay for additional cost increases for the Turley Flats project above the \$148,000 amount. In consideration for the County loan increase, the City will allocate one additional Regional Housing Needs Assessment (RHNA) credit, in addition to the two credits allocated from the City in 2017 for the County's agreement to help finance the Turley Flats project.

The loan agreement between the County of Napa and CAH stipulates that the final payment of the 10% retention on the County Loan, in the amount of \$65,000, to be made only upon completion and lease up of the Project. The amended County loan agreement should stipulate that the developer fee to CAH be made only with this final retention payment, and that CAH make its \$18,000 cash on hand available for Project costs, and not be returned to CAH until the Project is complete.