

Project Recommendation for Vegas-1 Decatur, LLC
April 11, 2012

Project Summary

The Developer, Vegas-1 Decatur, LLC (100% owned by Michael McDonald) has requested to have a development agreement, and 75-year \$1 per year ground lease, for the purpose of developing 196 units of affordable (60% area median income and below) and market-rate housing. Vegas-1 Decatur also is seeking grant funds from the City and Redevelopment Agency in the combined amount of \$3,919,000 (\$2,800,000 in Redevelopment Set-Aside funds, and \$1,119,000 in HOME funds), to support the first phase of construction.

The proposed project would be built in three phases. Situated on Laurelhurst and Westmoreland, Phase 1 would be 60 units, which would be single-story, six-plex units and a 3,515 square foot clubhouse. Units would be one-bedroom. Situated on 1501 North Decatur (former Wonderworld site), Phase 2 would be a 4-story building containing 72 one-bedroom and two-bedroom units, and a separate clubhouse building. Also situated at 1501 North Decatur, Phase 3 would be a 4-story building containing 64 one bedroom and two-bedroom units.

Excluding land cost, the total cost of the project is \$11,264,913. The Developer is seeking the following sources of funds for the project: (1) investor equity from State low income housing tax credits of \$7,124,232; (2) City grant funds of \$3,919,000; and (3) deferred developer profit/fee of \$221,681. The Nevada Housing Division reviews and approves State tax credits. The City Council reviews and approves the City grant funds (RDA Set-Aside and Home).

Staff Recommendation

Staff is recommending denial of the proposed development agreement, ground lease, and funding request for the following reasons:

- The Developer does not have any experience in developing affordable housing. While the Developer has retained a consultant (Frank Hawkins) with considerable experience in affordable housing development, the sole party contracting with and responsible to the city is Michael McDonald and his Limited Liability Company. This is important in the event of a project default.
- On December 7, 2011, the City terminated for nonperformance a development agreement with Alpha Omega Strategies, LLC, of which Michael McDonald was a partner/member. (Please refer to **Attachment "A"** for summary history of the prior agreement with Alpha Omega Strategies.)
- The 1501 Decatur property is zoned C-1 commercial and is adjacent to C-1 commercial. Staff believes that the highest and best use for the property is general commercial rather than housing.
- Excluding the land contribution, the city's grant contribution would equate to \$97,975 per affordable housing unit. This contribution is two to three times higher than city grant contributions on other tax credit projects. (Please refer to **Attachment "B"** which provides a comparison chart of grant funding for these projects.) It is also higher than what the city could spend to buy comparable, vacant units from the private sector.

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- The City has invested \$8,122,800 in the acquisition of the 1501 Decatur and Laurelhurst Westmoreland property, and \$400,000 in environmental remediation of the property. Including the city land contribution at the city's cost basis together with the proposed \$3,919,000 in city grant funding, the city's total investment in the project would be \$12,041,800. Applying this figure to the project would yield a per unit City subsidy cost of \$301,045 per unit. (Please refer to **Attachment "A"** for information related to the City's acquisition of the property.)
- Because the project is a phased project, there is no assurance or guarantee that the latter phases (phase 2 and phase 3) would ever come to fruition. To date, the developer has not presented any evidence of funding for phase 2 or for phase 3.

Agenda Items for City Council Consideration

There are five agenda items for this transaction.

- RDA Item #6: Disposition and Development Agreement (DDA) for leasing the properties (1501 North Decatur and Laurelhurst/Westmoreland) for \$1.00 per year for a 75-year period. The DDA provides for leasing the property in phases, contingent on funding for each phase. For Phase 2, the DDA requires the Developer to first meet certain conditions precedent (section 5), including a requirement that the Developer make a capital contribution to the project of \$1,800,000 or greater.
- RDA Item #7: AB312 Resolution for the Redevelopment Agency, finding that the proposed lease would meet the redevelopment and economic development exemption. Because the \$1 per year lease is less than the higher of two appraised values, a redevelopment exemption is required per statute.
- CC Item #59: Allocation of \$2,800,000 in Redevelopment Set-Aside funds and \$1,119,000 in HOME funds from the city of Las Vegas. **Note:** There is an error in the agenda item subject line, and the corresponding backup, listing \$3,500,000 in Redevelopment Set-Aside funds. At the public hearing, Staff will read into the record a correction for the \$3,500,000 amount to be replaced with \$2,800,000.
- CC Item #60: Disposition and Development Agreement (DDA) for leasing the properties (1501 North Decatur and Laurelhurst/Westmoreland) for \$1.00 per year for a 75-year period. This item is redundant with RDA Item #6, because the Redevelopment Agency owns the front commercial piece (1501 North Decatur), and the city of Las Vegas owns the Laurelhurst/Westmoreland properties, and as such, both are parties to the proposed DDA.
- CC Item #64: AB312 Resolution for the city of Las Vegas, finding that the proposed lease would meet the redevelopment and economic development exemption. Because the \$1 per year lease is less than the higher of two appraised values, a redevelopment exemption is required per statute.