



July 20, 2020

Steven Carrigan
City Manager
City of Merced
678 West 18th Street
Merced, CA 95340

Re: Childs & B Update
Request additional Section 108 funds

Dear Mr. Carrigan,

On behalf of the partnership between The Richman Group and Central Valley Coalition for Affordable Housing (CVCAH), let me reaffirm our excitement regarding the Child's & B TOD Affordable Housing Project and our commitment to designing, permitting and closing of the financing – we are nearly there!

On Friday, July 17th I shared a summary project update and request for contingency funding. I would like to take this opportunity to share more detail about the project. Its starts with our schedule over the last few years:

Summary Schedule

• City of Merced RFP Award	May'17
• County-City Purchase Agreement	Jun'18
• City of Merced Exclusive Negotiation Agreement Approval	Oct'18
• Central California Alliance for Health Planning Grant Award	Nov'18
• Project Entitlements	Jan'19
• City of Merced Land Option Agreement & Enforceable Funding Commitment	Feb'19
• AHSC Application	Feb'19
• Central California Alliance for Health Implementation Grant Award	May'19
• AHSC Award	Jun'19
• Apartment Plans (90% Construction Documents)	May'20
• County-City Land Purchase	Jul'20
• Construction Documents (bids back from Subcontractors)	Jul'20
• Projected City Disposition & Development Agreement	Aug'20
• Projected Construction Loan Closing	Sep'20
• Absolute Deadline for Tax Credit & Bond Financing Closing	Oct'20

The project partnership hired a local contractor in 2019 to work side-by-side throughout the design process for estimating and input on constructability. The project partnership submitted for building permits in late 2019 and by May 2020 we reached nearly 90% construction documents – a milestone which allowed the contractor to “go to out for bid” with subcontractors. As of last week, our contractor received feedback from the subcontracting marketplace from our bid documents.

The Childs & B project is unique in some ways that it contains prevailing wages. These wages add additional cost to the project, but in theory can often be somewhat simpler for estimation purposes (they vary slightly less and can be more prescribed than open market pricing). However, the disruptions from Covid-19 are wide reaching. Whereas, contractors have been expecting overall construction pricing to remain steady or even retreat given market uncertainties, procurement of equipment and materials and scheduling of labor has been heavily impacted.

Products that are impacted by present or possible future Asian supply chains include: appliances, plumbing fixtures and rough material, electrical fixtures and rough material, heating and ventilating equipment components, window products, drywall, cabinets and countertops. All of these items have become harder to procure and have increased in cost.

Also, labor scopes have been impacted by Covid-19 regulations, including manpower reductions leading to extended durations and “commitment risk” for scheduling causing increases in concrete, framing, drywall, stucco, window installation, plumbing installation, roofing, and electrical fixtures. Subcontractors are facing unsure labor pool availability and are facing domestic shortages presently in the supply stream and are wagering on conditions over the next 16 months – most erring on the side of conservatism.

We are in unprecedented times. Please note, we are not asking the City to bare the brunt of these cost impacts. In fact, we are working with our bankers to increase sources for permanent debt, with our equity providers to increase the amount of tax credit equity and with the State of California to reduce a key capital reserve. Together, these budget modifications in tandem with the City’s in kind contribution will ensure the successful closing and construction for the Childs & B project.

We deeply value our partnership with the City of Merced and appreciate your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "RW", is written over the word "Sincerely,".

Rick Westberg
The Richman Group of California