



August 14, 2020

TO: CADA Board of Directors

**SUBJECT: August 21, 2020 Board Meeting
AGENDA ITEM 8
1717 S STREET PROJECT FUNDING LOAN**

CONTACT PERSON: Todd Leon, Development Director (CADA)
Wendy S. Saunders, Executive Director (CADA)

RECOMMENDED ACTIONS:

Staff recommends the CADA Board of Directors adopt a resolution authorizing the Executive Director to amend loan documents between CADA and the 1717 S Street Investors, LP (Development Partnership) to increase the loan amount from \$3,000,000 to an amount not to exceed \$3,300,000 to provide project gap financing and amend the FY 2020/21 budget to account for the new Development Partnership loan.

BACKGROUND

On March 25, 2016, the CADA Board adopted a resolution approving a Purchase and Sale Agreement ("PSA") with the Development Partnership to acquire the half block of property located on the north side of S Street between 17th and 18th Streets, known as 1717 S Street ("Property"). The Development Partnership includes the Capitol Area Community Development Corporation and CFY Development as equal partners. The Partnership plans to build a mixed-use residential project on the site in order to meet a portion of CADA's R Street Area affordable housing requirement. The planned project includes 159 affordable housing units, 11,376 square feet of commercial space, and 132 parking spaces. A summary of the project can be found as **Attachment 1** in this staff report.

On February 24, 2017 the CADA and CACDC Boards adopted resolutions authorizing the assignment of the PSA from CADA to the Development Partnership and authorized a loan agreement and promissory note between CADA and the CACDC in an amount not to exceed \$2,108,000. The other Partnership general partner also provided an equal loan of \$2,108,000 to the Partnership.

On March 10, 2017, CADA assigned the Purchase and Sale Agreement to the Development Partnership, which immediately closed escrow on the Property.

In December 2017, the Development Partnership completed its planning and conceptual design work for the Property. The Development Partnership also identified a project financing plan that included the use of 4% tax credits, and loans from the Sacramento Housing and Redevelopment Agency, California Housing Finance Agency (CalHFA), and CADA.

On January 11, 2018, the Sacramento Planning and Design Commission approved the plan and granted necessary land use entitlements.

On February 23, 2018, the Board authorized the Executive Director to execute a permanent loan agreement, promissory note, and any necessary loan document between CADA and the Development Partnership in an amount not to exceed \$3,000,000 to provide project gap financing. In addition, the Board approved amending the loan agreement and promissory note between CADA and CACDC to increase the loan amount from \$2,108,000 to an amount not to exceed \$2,808,000. In October 2018, the Development Partnership submitted a Federal 4% Tax Credit Application. As part of the application, the CADA Executive Director provided a CADA loan commitment letter to the Development Partnership that included an increased loan amount of \$3,300,000. The staff level commitment letter can be found as **Attachment 2** to this staff report. The additional \$300,000 in the CADA commitment letter was added to address increases to the project's financial gap that accrued from the time the original loan amount was approved by the Board in February 2018.

In December 2018, the Development Partnership was awarded the requested amount of Federal 4% tax credits.

In March 2019, the Development Partnership determined that the project had become infeasible. Labor shortages and increased material costs in the construction market had driven the project's costs beyond the initial project budget and the limits of the existing financing sources. The Development Partnership was forced to return the tax credit reservation in May 2019 and began exploring both project design and financing alternatives.

In June of 2019, the State of California Fiscal Year Budget for 2019/20 was approved and included \$500 Million for the state housing tax credit program. The influx of state housing tax credits provided a possible source of gap financing for the 1717 S Street project.

On January 17, 2020, the Development Partnership submitted an application for both State and Federal Housing Tax Credits through the CalHFA Mixed Income Housing Program.

On April 14, 2020, the California Tax Credit Allocation Committee (CTCAC) and California Debt Limit Allocation Committee (CDLAC) awarded the project state and federal tax credits.

ANALYSIS

The recommended action is to approve an increase to the CADA permanent loan for the 1717 S Street project to an amount not to exceed \$3,300,000, as requested by the Development Partnership, to help fill the project's funding gap. If approved, the CADA Loan along with the state tax credits, federal tax credits, and a CalHFA loan will provide the necessary financial assistance to feasibly build the 1717 S Street project. A financial summary, including a sources and uses table, is provided as **Attachment 3** to this staff report.

As with prior CADA loans to affordable housing projects, payments on this loan would be deferred until the deferred development fee is paid off, pursuant to tax credit rules. The loan would be for 55 years at 3% interest.

Board approval is required to increase the loan amount and approve the CADA funds to the project. The project is scheduled to close financing in October of this year, with construction starting in early November.

FINANCIAL IMPACT

When the project financing closes, the Partnership expects to capitalize the land purchase and remediation costs of the project, which will result in each partner, including the CACDC, receiving a cost reimbursement payment from the financing sources (**see Attachment 3**) in an amount of least \$2,400,000. The CACDC will use the returned funds to repay its predevelopment loan with CADA, which has a current balance of \$2,648,439. Any remaining loan balance on the predevelopment loan is expected to be repaid to CADA when the CACDC receives its share of the project development fee during construction.

The CADA residual receipts loan to 1717 S Street Project was previously approved in the amount of \$3,000,000. The loan carries a term of 55 years from the Close of Escrow and a 3% interest rate. The payments will begin no later than the 16th Year after project completion. If approved, the \$3,300,000 loan will be put in place in October 2020

The new CADA residual receipts loan will be funded by at least \$2,400,000 in repaid funds from CADA's original loan to the Capitol Area Community Development Corporation. The remaining +/- \$900,000 needed for the residual receipt loan will be provided from CADA's R Street Area Affordable Housing Reserve (\$667,700) and R Street Area Development Reserve (\$232,300). After these proposed withdrawals, the projected Affordable Housing Reserve balance will be zero and the projected balance will be \$1,367,000 in the R Street Development Reserve. These funding transfers would happen simultaneously through the escrow process when the project closes financing.

ENVIRONMENTAL CONSIDERATIONS

On March 25, 2016, the CADA Board found that the Purchase and Sale Agreement and the anticipated project are consistent with the Sacramento 2035 General Plan, and that potential project impacts have been addressed in the City of Sacramento 2035 General Plan Environmental Impact Report. Therefore, no further environmental review is required.

Attachments:

1. 1717 S Street Project Summary
2. 2018 Staff Level Funding Commitment Letter to 1717 S Street Investors, LP
3. 1717 S Street project sources and uses



Brief Summary:

1717 S Street is a mixed-use project to be constructed on a one-half block in-fill site within the R Street Corridor SPD in downtown Sacramento, CA. The site is located between 17th Street and 18th Street on the north side of S Street to Rice Alley.

1717 S Street is a 236,408 Square Foot (SF) project consistent with the requirements of the R Street Corridor SPD requirements and is comprised of the following components:

- 159 residential units regulated at low or very low income levels
 - 78 units @ 50% Area Median Income
 - 47 Units @ 60% Area Median Income
 - 33 Units @ 80% Area Median Income
 - 1 Managers Unit
- 11,376 SF of commercial space for restaurants and neighborhood serving commercial tenants with outdoor patios located at the back of the public sidewalk along S Street;
- 22,610 private and public outdoor spaces in patios and the podium deck for the use of the residents of the 159 apartment units
- 132 vehicle parking spaces in a two-story facility located within the building under the podium and accessed via Rice Alley
- Long-term secured bike parking for up to 128 bicycles along the 18th Street
- 40 short-term bicycle racks located around the building on 17th Street, S Street, and 18th Street close to the commercial uses for use by visitors and security
- 7 designated motorcycle parking spaces inside the garage.



October 1, 2018

1717 S Street Investors, LP
C/O Cyrus Youssefi
1724 10th Street, Ste. 120
Sacramento, CA 95811

RE: Permanent financing support for 1717 S Street

Dear Cyrus Youssefi,

Subject to receipt of all required and requested submittal materials, listed below is a summary of proposed terms for a permanent financing source for the 1717 S Street project that the Capitol Area Development Authority staff will recommend to the CADA Board at its meeting scheduled on December 7, 2018. The terms include a loan of \$3,300,000 to the project and an agreement the project will provide 20% of the units to households earning 50% or less of the Area Median Income (AMI) and at least 15 of the units to households earning 120% or less of AMI.

Proposed Loan and Terms

1. **Project Description:** 1717 S Street is a mixed-use, mixed income project consisting of 159 unit new apartment units and approximately 11,376 square feet of ground floor commercial uses. The Project is also a transit oriented development that will be constructed on a one-half block infill site within the R Street Corridor SPD in the Central City of Sacramento, CA. The site is located between 17th Street and 18th Street on the north side of S Street to Rice Alley.
2. **Assessor's parcel number for property:** APNs 009-0095-006, 009-0095-007, 009-0095-008, 009-0095-009, & 009-0095-011
3. **Borrower:** 1717 S Street Investors, LP
4. **Documentation:** Upon the request of CADA, 1717 S Street Investors, LP shall provide CADA with any documents related to the Project including, but not limited to businesses and financial information and other 3rd party reports.
5. **Approvals and Permits:** A condition precedent to approval of the Loan and execution of the Loan documents is the project's approval by the City of Sacramento and the 1717 S Street Investors, LP's ability to secure other necessary funding sources to make the project financially viable.
6. **Disbursement:** Funding shall be dispersed upon the appropriate building approval by the City of Sacramento, the closing of all other funding sources, and upon satisfaction of all conditions set forth in the loan documents.
7. **Project Bid:** Prior to disbursement of the loan, CADA shall be given a copy of the chosen contractors' project bids.

8. **Use of Funds:** The loan shall be used for the construction of 1717 S Street, a mixed-use project consisting of 159 unit new affordable and market rate apartment units and approximately 11,376 square feet of ground floor commercial uses. The project will provide 20% of the units to households earning 50% or less of the Area Median Income (AMI) and at least 15 of the units to households earning 120% or less of AMI.

LOAN TERMS

9. **Maximum Loan Amount:** \$3,300,000.00

10. **Loan Interest:** 4% Fixed annually

11. **Term:** 40 years.

12. **Fees:** No fees

13. **Payment:** Annual Payments of principal and interest commencing in the 11th year after the Project received its Certificate of Occupancy in amount equal to seventeen percent (17%) of Residual Cash Flow for the preceding calendar year.

14. **Prepayment Penalty:** None

Non-Binding Effect: This document is intended to be a non-binding statement of the potential terms of a proposed transaction, summarizing them for a proposed Loan between CADA and the Property Owner below. This document is not intended to include all potential loan terms. The loan is subject to the negotiation, approval, execution and delivery of various loan agreements consistent with the basic terms and conditions set forth herein and other additional loan terms agreed to by the parties. This document does not create a binding agreement of any kind.

Both parties understand that this agreement is a work in progress and both will be reasonable in making modifications in terms that subsequently are required to carry out the intent of this term sheet.

Sincerely,



Wendy Saunders
CADA Executive Director

UNDERSTOOD AND AGREED TO:
1717 S Street Investors, LP

By: _____
Name: **Cyrus Youssefi**
Title: **General Partner**

Dated: _____

**1717 S Street
Financing Source and Uses**

Financing Sources

Federal Tax Credits	\$22,772,145
State Tax Credits	\$ 7,528,517
Permanent Financing Loan	\$24,029,516
Cal HFA Cap Loan	\$ 7,900,000
CADA Gap Loan	\$ 3,300,000
<u>Deferred Developer Fee</u>	<u>\$ 3,077,040</u>
Total	\$68,607,218

Development Uses

Land Cost	\$ 3,793,116
Design and Testing	\$ 1,400,000
Hard Construction Cost	\$48,433,253
Construction Contingency	\$ 2,107,558
Interest and Fees	\$ 2,505,600
Financing Fees	\$ 1,159,594
Developer Fee	\$ 6,400,000
<u>Permits, Studies, Misc fees</u>	<u>\$ 2,808,097</u>
Total	\$68,607,218



RESOLUTION NO. 20 - 24

Adopted by the Capitol Area Development Authority

August 21, 2020

RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR AUTHORIZING THE EXECUTIVE DIRECTOR TO AMEND LOAN DOCUMENTS BETWEEN CADA AND THE 1717 S STREET INVESTORS, LP (DEVELOPMENT PARTNERSHIP) TO INCREASE THE LOAN AMOUNT FROM \$3,000,000 TO AN AMOUNT NOT TO EXCEED \$3,300,000 TO PROVIDE PROJECT GAP FINANCING FOR THE 1717 S STREET PROJECT AND AMEND THE FY 2020/21 BUDGET TO ACCOUNT FOR THE NEW DEVELOPMENT PARTNERSHIP LOAN.

WHEREAS, on March 25, 2016 the CADA Board authorized the Executive Director to enter into a Purchase and Sale Agreement with 1700 Block S Street Investors, LLC (Owner) to purchase 1717 S Street (Property), and on April 5, 2017, the Executive Director signed the Purchase and Sale Agreement; and

WHEREAS, On March 10, 2017, CADA assigned the PSA to the 1717 S Street Investors L.P. which immediately closed escrow and purchased the 1717 S Street Property; and

WHEREAS, the 1717 S Street Investors, L.P. plans to finance the 1717 S Street development with sources of funding from CADA, California Housing Finance Agency (CalHFA), California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee; and

WHEREAS, there is currently a \$14.3 Million funding gap for the project for which 1717 S Street Investors, L.P. plans to address through the several funding sources listed above, and a requested \$3,300,000 loan from CADA; and

WHEREAS, CADA desires to make the budget adjustments to increase loan amount to 1717 S Street Investors, L.P. in an amount not to exceed \$3,300,000

NOW, THEREFORE, BE IT RESOLVED, by the Capitol Area Development Authority that the Board of Directors hereby:

1. Authorizes the Executive Director to increase the new loan amount to the 1717 S Street Investors, LP by \$300,000, and to an amount not to exceed \$3,300,000.
2. Authorizes the Executive Director to amend the FY 2020/21 budget to account for the new permanent loan to 1717 S Street Investors, L.P. in amount not to exceed \$3,300,000.

ATTEST:

Ann Bailey, Chair

Jill Azevedo
Acting Secretary to the Board of Directors