



May 8, 2020

TO: CADA Board of Directors

**SUBJECT: May 15, 2020 Board Meeting
AGENDA ITEM 8
AMENDMENT OF PERMANENT LOAN FOR 1322 O AFFORDABLE HOUSING
PROJECT**

CONTACTS: Tom Kigar, Special Projects Director
Wendy Saunders, Executive Director

RECOMMENDED ACTIONS:

Staff recommends that the CADA Board of Directors authorize an increase of the permanent loan commitment for the 1322 O Street affordable housing project from \$2.5 million to \$4.5 million.

BACKGROUND

The 1322 O Affordable Housing Project is a mixed-use rental project consisting of 56 small studio apartment units, 100% of which will be affordable. The Project includes 1,301 square feet of ground floor retail space. The building is five stories tall with laundry, bike storage, retail and four housing units on the ground floor and four floors of housing above.

At the November 13, 2019 meeting, the Board authorized execution of a Development Ground Lease with the State of California for 1322 O Street that allowed for development of a 56-unit affordable housing project; approved a predevelopment loan for \$850,000 to cover all predevelopment costs to be repaid at project financing close of escrow; approved a permanent loan of \$2.5 million; and authorized the filing of a CEQA Notice of Exemption.

On November 15, 2019 staff submitted an application for 4% tax credits and tax-exempt bond funds. The project was awarded \$8.9 million in tax credit equity on January 15, 2020 but on January 17, 2020 staff was advised that the project did not score high enough to receive a bond allocation.

CADA staff revised the bond application by (1) reducing its developer fee, and (2) increasing the number of more deeply affordable units in order to improve the project score. The staff submitted the application on January 22 and, by historic standards, the score should have been high enough for the project to receive a bond allocation. However, on Tuesday April 14, due to heavy competition, the project did not succeed but was, in fact, the next project on the list to be funded.

At this point, all of the California Tax Credits have been awarded to other projects and, due to the financial impacts of the COVID crisis, it appears unlikely that the State will have sufficient revenue to replenish the California Tax Credit program in the 2020-2021 fiscal year. Further, sources of gap funding, such as the anticipated City of Sacramento Measure U bond which would have contributed \$50 million to the City's Affordable Housing Trust Fund, have been diverted to address COVID-19 issues. Therefore, the only option for moving this project forward is for CADA to increase its permanent loan amount from \$2.5 to \$4.5 million. The staff will submit a new tax credit and bond

application anticipating the receipt of federal tax credits (but no state tax credits), and a bond allocation.

Since the November 13, 2020 Board meeting staff has accomplished the following additional actions:

- 11/15/20 Entered into an agreement with Ad Mail Owners to relocate their 14 parking tenants from the project site to CADA-managed parking spaces nearby. The agreement required:
 - DGS to sell the Ad Mail Express land to the Owners by April 16, 2020,
 - CADA to conduct sub-slab soil vapor testing at Ad Mail to ensure that no soil vapor migrated from the Project Site onto the Ad Mail site, and
 - CADA to obtain evidence from the County Environmental Division that the Project Site can be developed requiring the parking tenants to be relocated.
 CADA has fulfilled the terms of this agreement.
- 1/10/20 Incorporated value engineering and constructability input from Tricorp into Design Development Phase.
- 1/20/20 Completed Design Development Phase.
- 4/8/20 Submitted Grading and Underground Electric plans to the City of Sacramento for review and approval that included grading, relocation, and installation of underground utility lines for the adjacent Ad Mail property.
- 4/16/20 Completed construction documents and submitted them to the City for review and issuance of a building permit.
- 4/30/20 Received the first round of comments from the City for the Grading and Underground electric plan.

ANALYSIS

The need for CADA to contribute additional funding to the project is deeply disappointing and results from a highly irregular state funding process that proved impossible for CADA staff to navigate successfully. In order to allocate an additional \$2.0 million to the project, CADA will need to redirect funds it was forecasting for development of Sites 5/6/7 (16th and N), which were projected to be needed for that project in 2021-2022. Preliminary design plans for the Site 5/6/7 indicate the capacity for a project of over 150 units, which would require financial assistance from State and City sources in addition to CADA funds. Given that both State and City sources are likely to be impacted by the health crisis for several years to come, it is unlikely that sufficient total resources would be available to meet the financial needs of that project under our projected timeline. Thus, diverting the additional \$2.0 million at this time to the O Street project to provide much-needed new affordable housing supply is a reasonable policy choice.

Unit Count and Affordability

The affordability levels, unit mix, rents and income levels for the 56 units have been set as follows to maximize the amount of tax credit equity the project can receive.

Table 1 - Unit Mix and Rents

Unit	Number	Gross Rent	Annual Income not to Exceed
Studios @ 50% AMI	28	\$756	\$30,250
Studios @ 70% AMI	27	\$1,058	\$42,350
Manager's Unit	1		
Total	56		

Schedule

The staff will submit a tax credit and bond application through the California Housing Finance Authority to the California Tax Credit Allocation Committee (CTCAC) and the California Debt Limit Allocation Committee (CDLAC). CTCAC and CDLAC are scheduled to announce the revised date for accepting applications on May 15. Assuming CADA receives both awards in a timely fashion, Tricorp Construction will provide a Guaranteed Maximum Price (GMP) and if acceptable to CADA, it will execute a GMP contract with CADA and begin mobilization for start of construction by Fall. Based on a Fall 2020 construction start, the estimated construction completion date is mid-2022. At close of escrow, tax credit equity brought by the tax credit investor, construction financing and any additional gap financing, in this case a loan from CADA, will all become available for construction.

Project Budget

Table 2 - Development Budget (rounded to nearest \$10,000)

	11/13/19	5/8/20
Hard Construction Costs	\$ 11,100,000	\$ 11,726,000
Architecture and Engineering	\$ 600,000	\$ 784,000
Construction Period Interest and Construction Financing Fees	\$ 390,000	\$ 390,000
Building Permits and Fees	\$ 420,000	\$ 635,000
Legal	\$ 150,000	\$ 185,000
Operating Reserves (3 months)	\$ 260,000	\$ 260,000
Developer Fee	\$ 1,800,000	\$ 1,900,000
Construction Contingency	\$ 500,000	\$ 400,000
Other Costs	\$ 280,000	\$ 320,000
Total Cost	\$15,500,000	\$16,600,000

Total estimated project costs have increased to \$16.6 million. The increase includes additional costs associated with Cross Laminated Timber (CLT); addition of Murphy Beds and built-in wall storage; site improvements to alley and Ad Mail Express; replacement of the transformer serving Sam's Market, Ad Mail Express and 1322 O; soil testing and environmental site assessments; increased electrical materials and labor costs; an increase in the Developer Fee; the SMUD design fee; the architectural fee for additional studies; tax credit re-application filing and consulting fees; building permits/fees and engineering fees associated with Ad Mail Express.

Table 3 - Financing Sources (rounded to nearest \$10,000)

	11/13/19	5/8/20
State and Federal Tax Credit Equity Proceeds	\$ 7,220,000	\$ 4,660,000
Commercial Permanent Loan	\$ 4,370,000	\$ 5,700,000
CADA Permanent Loan	\$ 2,500,000	\$ 4,500,000
Deferred Developer Fee	\$ 1,410,000	\$ 1,740,000
Total Sources	\$15,500,000	\$16,600,000

POLICY

Staff is recommending this action due to the affordable housing crisis and the desire to implement an innovative and sustainable project within blocks of the State Capitol. Staff and its consultants have diligently perfected and advanced the Project so that it will be shovel ready when the anticipated funding is awarded. The case for CADA stepping up and providing the additional funding is even more compelling in light of the uncertainty of future funding.

FINANCIAL IMPACT

Funding for \$2.8 million of the Permanent Loan will be drawn from the Development Reserve, Affordable Housing Reserve and the Acquisition Reserve and \$1.7 million will be drawn from the Available Fund Balance. These funds will be deposited into an escrow account at close of escrow, prior to start of construction. The approximately \$1 million advanced by CADA's predevelopment loan to the project will be paid back to CADA at close of escrow and placed into reserves.

ENVIRONMENTAL CONSIDERATIONS

At its November 13, 2019 the Board found the project to be exempt from CEQA based upon its consistency with the Central City Specific Plan and EIR and staff filed a Notice of Exemption.