



June 12, 2020

**TO:** Capitol Area Community Development Corporation CACDC Board of Directors

**SUBJECT: June 19, 2020 Board Meeting  
AGENDA ITEM 9  
TOD LOAN FOR 1322 O STREET AFFORDABLE HOUSING PROJECT**

**CONTACT PERSONS:**

Renee Funston, Development Manager (CADA)  
Tom Kigar, Special Projects Director (CADA)  
Wendy Saunders, Executive Director (CADA), President (CACDC)

**RECOMMENDED ACTIONS:**

Staff recommends the CACDC Board of Directors, in the role of the managing general partner of 1322 O St Investors LP (the "Partnership"), adopt a resolution authorizing the CACDC President to apply for a Partnership loan up to \$7 Million, and to enter into and execute loan documents and the Standard Agreement from the California Department of Housing and Community Development Transit-Oriented Development (TOD) Housing Program in connection with the loan, in order to provide the Partnership with gap financing for its 1322 O Street Affordable Housing Project.

**BACKGROUND**

The 1322 O Street Affordable Housing Project is a mixed-use rental project consisting of 55 small studio apartment units, 100% of which will be affordable, plus one manager's unit. The building is five stories tall and includes 1,321 square feet of ground floor retail space. The ground floor has a laundry room, secure bike storage, additional residents' storage, mail room, retail, and three housing units. There are four floors of housing above the ground floor as well as a deck, community room, and community kitchen on the fifth floor.

At the November 13, 2019 meeting, the CADA Board authorized execution of a Development Ground Lease with the State of California for the 1322 O Street property 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; and authorized the filing of a CEQA Notice of Exemption.

On April 30, 2020, HCD released a Notice of Funding Availability for the TOD Housing Program. The TOD Program's primary objectives are to increase the overall supply of housing, increase the supply of affordable housing, increase public transit ridership, and minimize automobile trips. Under the TOD Program, up to \$10 million in low-interest permanent loans are available as gap financing for rental housing developments.

## **ANALYSIS**

The recommended action is to authorize CACDC staff to prepare an application for the Partnership to submit for the TOD funds by the July 30, 2020 application date. To maximize the project's score, the application must include unit affordability levels at 50% and 40% of AMI, which is lower than previously anticipated. The final amount of the TOD funds to be requested is still under review, but would be no more than \$7.0 million in gap funding for the project that has an estimated development cost of \$16.6 million. The TOD funds would:

- Make up for the lack of availability of State tax credits for the project and the decrease in the value of tax credits due to market conditions, and
- Fill the gap resulting from a lower commercial private loan given the lower affordability levels/lower rental revenue.

If TOD funds are awarded to the project on the October 2020 award date, staff will apply to the Tax Credit Allocation Committee (TCAC) and the California Debt Limit Allocation Committee (CDLAC) for tax credit and bond funding. The TCAC/CDLAC application will be due in either November 2020 or January 2021. (The November date is not certain at this time.)

If TOD funds are not awarded to the project, staff will submit a TCAC/CDLAC application with a mix of units at 50% and 70% AMI to maximize rental revenue and generate a maximum commercial permanent loan while meeting TCAC affordability levels. Assuming the FY 20/21 State Budget includes the \$500 million in state tax credits recommended by Governor Newsom, the Partnership will submit an application for Federal and State tax credits and bond allocation by the January 2021 deadline. Staff is also preparing to apply for a building permit upon receipt of tax credit and bond funding.

## **FINANCIAL IMPACT**

Pursuing and securing the TOD funds will allow CADA the flexibility to use its resources for additional affordable housing projects in CADA's pipeline.

## **ENVIRONMENTAL CONSIDERATIONS**

At the November 13, 2019 meeting, 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.

## **POLICY**

Developing 1322 O Street as a "micro-unit" affordable housing project; making use of a novel building method that has a lower carbon footprint; and building the project in collaboration with the State of California under Governor Newsom's Executive Order regarding the California housing crisis is consistent with CADA's 2016- 2021 Strategic Plan that calls for urban development leadership, development of complex infill projects and collaboration with CADA's State and City partners.