



July 14, 2020

TO: Capitol Area Community Development Corporation (CACDC) Board of Directors

**SUBJECT: July 16, 2020 Board Meeting
AGENDA ITEM 1
INCREASING THE FUNDING AMOUNT TO BE REQUESTED FROM HCD**

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"), increase the Partnership loan amount being requested from the Department of Housing and Community Development Transit-Oriented Development (TOD) Housing Program from "up to \$7 Million" to "up to \$10 Million," as previously authorized by the Board for the 1322 O Street Affordable Housing Project.

BACKGROUND

At the June 19, 2020 meeting, the CACDC Board adopted 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.

ANALYSIS

Following careful analysis of the pro forma and the current state of the development financing market, staff is recommending that the Partnership request up to \$10 million through the TOD Housing Program. The total estimated development cost currently stands at \$16.4 million. The additional loan requested from HCD would eliminate the need for a construction and permanent loan from a private lender. The HCD loan request would be consistent with the TOD program requirements that allow the project to request up to a \$10 million maximum loan amount. To fulfill these TOD requirements, the income limits were further reduced so the highest eligible tenant is 60% AMI compared to 70% AMI previously. Requesting this amount from HCD and eliminating the private loan will increase the required CADA loan from \$2 million to an estimated \$3.1 million subject to further development cost increases. The advantage of this financing approach is that it will allow full payback of the deferred developer fee within the first 15 years of operation, which is a requirement of the tax credit program. Under alternative scenarios including a lesser HCD loan and additional private financing, CACDC would not be able to recover the full deferred developer fee.

The accompanying resolution is the same as approved by the Board at the June 19th Board meeting, except that the loan amount is changed to up to \$10 million.

Staff will submit a TOD Housing Program application for 1322 O Street by the July 30, 2020 deadline.

FINANCIAL IMPACT

Pursuing and securing the TOD funds will advance development of the 1322 O Street affordable housing project. CADA's contribution will increase from \$2 million to an estimated \$3.1 million. The Board had approved a \$4.5 million CADA contribution at the May 15th Board meeting. The CADA loan is necessary for the 1322 O Street application to score well on the TOD Housing Program tiebreaker as it shows additional leverage by sources of financing other than HCD.

The use of these funds will affect the funding available for all of our outstanding projects and as a result, the staff will be analyzing the possibility of issuing bond debt for CADA Board consideration. The State's extension of CADA's expiration date to 2055 and current advantageous interest rates enhance the attractiveness of debt issuance at this time.

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.