

September 28, 2020



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

SUBJECT: **October 2, 2020 Board Meeting**
AGENDA ITEM 6
1717 S STREET – CACDC LOAN AND PROJECT FUNDING LOAN

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

RECOMMENDED ACTIONS:

Staff recommends the CADA Board of Directors and the CACDC Board of Directors approve various loan agreements and allocate funds as necessary to fund and complete construction of 1717 S Street.

[CADA] Adopt a resolution authorizing the Executive Director to 1) retire a previous loan agreement, deed of trust and promissory note between CADA and CACDC; 2) execute a new loan agreement and promissory note in the approximate amount of \$1,108,000, which equals the remaining balance on the retired loan plus a new line of credit in an amount not-to-exceed \$500,000; and 3) to authorize amendment of the Fiscal Year (FY) budget 20/21 budget to allocate funding for the new 1717 S Street development loan.

[CACDC] Adopt a resolution authorizing the President to 1) retire a previous loan agreement and promissory note between CADA and CACDC; 2) execute a new loan agreement and promissory note with CADA in the amount of \$1,108,000, and authorize the drawdown of funds from the new loan in an amount not-to-exceed \$500,000 to fund project construction expenses; and 3) execute a loan agreement and promissory note with the 1717 S Street Partnership, LP to loan an amount not to exceed \$500K to the 1717 S Street Partnership, LP.

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 Partnership will build a mixed-use, mixed-income project on the site in order to meet a portion of CADA's R Street Area affordable housing requirement. Also on March 25, 2016, CADA and the CACDC executed a Revolving Line of Credit in the amount of \$259,000 to pay the CACDC's general partner portion (half) of the due diligence deposits and project predevelopment costs.

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 CACDC Board also authorized the drawdown of the CADA loan in order to pay off the previous \$259,000 line

of credit, and to provide the CACDC's funding contribution to the Development Partnership for the property purchase, groundwater remediation, and other predevelopment costs. The other Partnership general partner also provided an equal loan of \$2,108,000 to the Partnership.

On February 23, 2018, the CADA Board authorized the Executive Director to execute a permanent loan agreement, promissory note, and any necessary loan documents 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.

On August 21, 2020 the CADA Board adopted 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.

Analysis

The 1717 S Street Investors, LP is set to close escrow on project financing by October 13, 2020. The project financing has been difficult to complete as the affordable housing financial market has been unpredictable since the onset of the Covid-19 pandemic. Financial agreement terms and loan rates conditioned by the project's financial partners have altered the assumptions in the project pro forma and budget. These changes are still being negotiated but as it stands, these changes may cause a possible construction budget shortfall.

CADA Loan to CACDC

CADA's funds loaned to the CACDC were contributed to the 1717 S Street Partnership and utilized for the property purchase, carrying costs, remediation, and predevelopment work leading to construction of the project. In all, the CACDC has drawn down the entire allowed loan amount of \$2,808,000. CACDC was expected to be repaid on its partnership predevelopment contribution, in part or whole, out of the finance closing proceeds. However, based on the terms of the various financing agreements, it appears the project will receive less funding out of the escrow closing than anticipated and thus limiting the amount of reimbursement back to the Partnership for predevelopment costs. The CACDC is expected to receive approximately \$2.2 Million from closing that will be used to pay down on the CADA Loan and will leave a remaining estimated loan balance of approximately \$608,000.

Construction funding

Lower than expected tax credit proceeds and slight increases in construction costs and insurance has resulted in a possible shortfall in the project construction budget. In order to ensure there are enough funds to complete construction activities, CFY Development and the CACDC might need to each loan the project Partnership up to \$500,000. These available loan funds will cover soft cost and contingency items such as special inspections, studies and architectural services through the course of construction.

In order to contribute its share of funds to the Partnership, should it be needed, the CACDC is requesting a \$500,000 line of credit and loan from CADA. The loan would only be drawn down if needed. If the construction loan funds are utilized, these funds would be paid back either at the conversion to the permanent financing or through payment from project revenues after senior debt payments have been made each year.

CADA Predevelopment Loan Balance and New Construction Loan

Staff is recommending that the current loan between CADA and the CACDC be retired at the close of the project financing escrow and a single new loan be established that would consist of CACDC's remaining predevelopment loan debt to CADA in the approximate amount of \$608,000 and the new requested construction loan in the amount of \$500,000, for a total of approximately \$1,108,000. The new loan between CADA and CACDC would be unsecured.

FINANCIAL IMPACT

As previously stated to the Board, when project financing closes escrow, 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 repayment, which is now estimated to be \$2,200,000. The CACDC will use the returned funds to repay CADA all but approximately \$608,000 of the funds loaned to the CACDC. The remaining loan balance is expected to be repaid to CADA upon conversion to permanent financing and when CACDC receives its share of the project development fee.

Since the \$3,300,000 CADA gap loan to the project is partially funded by the repayment of the predevelopment funds to CACDC, CADA will need to provide approximately \$200,000 more funds from the CADA R Street Area Development reserve than previously reported to the CADA Board. The addition funding needed for the loan will leave the R Street Area Development Reserve with an estimated balance \$1,167,000.

Funding for the CACDC's requested \$500,000 line of credit to cover soft cost contingency expenses during construction of the 1717 S Street project will also need to draw from the R Street Area Development Reserve. If approved and the the entire line of credit is drawn, the Development Reserve will be left with a balance of \$667,000 for the FY20/21.

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.



RESOLUTION NO. 20 - 28

Adopted by the Capitol Area Development Authority

October 2, 2020

RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO 1) RETIRE A PREVIOUS LOAN AGREEMENT, DEED OF TRUST AND PROMISSORY NOTE BETWEEN CADA AND CACDC; 2) EXECUTE A NEW LOAN AGREEMENT AND PROMISSORY NOTE IN THE APPROXIMATE AMOUNT OF \$1,108,000, WHICH EQUALS THE REMAINING BALANCE ON THE RETIRED LOAN PLUS A NEW LINE OF CREDIT IN AN AMOUNT NOT-TO-EXCEED \$500,000; AND 3) TO AUTHORIZE AMENDMENT OF THE FISCAL YEAR (FY) BUDGET 20/21 BUDGET TO ALLOCATE FUNDING FOR THE NEW 1717 S STREET DEVELOPMENT 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 (PSA); and

WHEREAS, on March 25, 2016, CADA approved a Revolving Line of Credit with the Capitol Area Community Development Corporation (CACDC) in the amount of \$259,000, to allow CACDC to pay property deposits and due diligence costs; and

WHEREAS, On February 24, 2017 the CADA Board authorized execution of a new loan agreement and promissory note between CADA and the CACDC in an amount not to exceed \$2,108,000 (which among other things, was used to pay off the \$259,000 Revolving Line of Credit), and authorized budget amendments necessary to fund the loan; 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, On February 23, 2018, the CADA Board approved a permanent loan agreement, promissory note, and any necessary loan document between CADA and 1717 S Street Investors, L.P., in an amount not to exceed \$3,000,000 to provide project gap financing, and 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.

WHEREAS, On August 21, 2020, the CADA Board authorized amending loan documents between CADA and 1717 S Street Investors LP to increase the loan amount from \$3,000,000 to an amount not to exceed \$3,300,000 to provide project gap financing.

WHEREAS, the 1717 S Street Investors, LP is set to close escrow on project financing by October 13, 2020 and upon receiving funding at escrow will reimburse the CACDC portion but not all of the predevelopment funds contributed to the development partnership and therefore will not allow the CACDC to repay its loan agreement and promissory note with CADA in full; and

WHEREAS, the 1717 S Street Investors, L.P. anticipates a cash flow shortfall during construction that may require each General Partner to advance up to \$500,000 to the Partnership and the CACDC is requesting to borrow funds for such an advance from CADA.

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

1. Authorizes the Executive Director to retire a previous loan agreement, deed of trust and promissory note between CADA and CACDC.
2. Authorizes the Executive Director to execute a new loan agreement and promissory note in the approximate amount of \$1,108,000, which equals the remaining balance on the retired loan plus a new line of credit in an amount not-to-exceed \$500,000.
3. Authorizes the Executive Director to amend the Fiscal Year (FY) 20/21 budget to allocate funding for the new 1717 S Street development loan.
4. Authorizes the Executive Director to do any and all things, and take any and all actions that may be necessary or advisable, in her discretion, in order to complete the transactions described herein.

ATTEST:

Jill Bagley-Azevedo
Secretary to the Board of Directors

Ann Bailey, Chair



RESOLUTION NO. 20-04

Adopted by the Capitol Area Community Development Corporation

October 2, 2020

RESOLUTION AUTHORIZING THE CACDC PRESIDENT TO 1) RETIRE A PREVIOUS LOAN AGREEMENT AND PROMISSORY NOTE BETWEEN CADA AND CACDC; 2) EXECUTE A NEW LOAN AGREEMENT AND PROMISSORY NOTE WITH CADA IN THE AMOUNT OF \$1,108,000, AND AUTHORIZE THE DRAWDOWN OF FUNDS FROM THE NEW LOAN IN AN AMOUNT NOT-TO-EXCEED \$500,000 TO FUND PROJECT CONSTRUCTION EXPENSES; AND 3) EXECUTE A LOAN AGREEMENT AND PROMISSORY NOTE WITH THE 1717 S STREET PARTNERSHIP, LP TO LOAN AN AMOUNT NOT TO EXCEED \$500K TO THE 1717 S STREET PARTNERSHIP, LP.

WHEREAS, on March 25, 2016, the Capitol Area Community Development Corporation (CACDC) approved a Revolving Line of Credit with the Capitol Area Development Authority (CADA) in the amount of \$259,000, to allow CACDC to pay property deposits and due diligence costs related to the property at 1717 S Street; and

WHEREAS, on December 9, 2016, the Capitol Area Community Development Corporation (CACDC) Board of Directors approved establishment of a partnership with CFY Development, known as 1717 S Street Investors, L.P., for the purpose of developing the property at 1717 S Street as a mixed-use, mixed-income multi-family development project; and

WHEREAS, On February 24, 2017 the CACDC Board authorized execution of an initial loan agreement and promissory note between CADA and the CACDC in an amount not to exceed \$2,108,000, and also authorized the drawdown of the CADA loan in order to repay the \$259,000 Revolving Line of Credit and provide the CACDC's funding contribution to 1717 S Street Partnership, LP for the property purchase and groundwater remediation; and

WHEREAS, on March 10, 2017, CADA assigned the Purchase and Sale Agreement to the 1717 S Street Investors, L.P., which immediately closed escrow on the Property, and the CACDC recorded a Deed of Trust against the Property to secure the CADA Loan to the CACDC; and

WHEREAS, On February 23, 2018, the CADA Board approved a permanent loan agreement, promissory note, and any necessary loan document between CADA and 1717 S Street Investors, L.P., in an amount not to exceed \$3,000,000 to provide project gap financing, and 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.

WHEREAS, the CADA Board authorized amending loan documents between CADA and 1717 S Street Investors LP to increase the loan amount from \$3,000,000 to an amount not to exceed \$3,300,000 to provide project gap financing.

WHEREAS, the 1717 S Street Investors, LP is set to close escrow on project financing by October 13, 2020 and upon receiving funding at escrow will reimburse the CACDC portion but not all of the predevelopment funds contributed to the development partnership and therefore will not allow the CACDC to repay its loan agreement and promissory note with CADA in full; and

WHEREAS, the CACDC may need to contribute funds to the Partnership to address construction funding shortfalls for soft costs expenses, the CACDC is requesting a \$500,000 line of credit and loan from CADA.

NOW, THEREFORE, BE IT RESOLVED, that the CACDC Board of Directors hereby:

1. Authorizes the President to retire a previous loan agreement, deed of trust and promissory note between CADA and CACDC.
2. Authorizes the President to execute a new loan agreement and promissory note in the approximate amount of \$1,108,000, which equals the remaining balance on the retired loan plus a new line of credit in an amount not-to-exceed \$500,000.
3. Authorizes the President to authorize the drawdown of funds from the new loan in an amount not-to-exceed \$500,000 in order to loan the funds to 1717 S Street Investors, L.P. for project construction expenses.
4. Authorizes the President execute a loan agreement and promissory note with the 1717 S Street Partnership, LP in an amount not to exceed \$500,000 to 1717 S Street Partnership, L.P.
5. Authorizes the President to take any and all actions that may be necessary or advisable, in her discretion, in order to complete the transactions described herein.

ATTEST:

Ann Bailey, Chair

Jill Bagley-Azevedo
Secretary to the Board of Directors