



January 19, 2023

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

**SUBJECT: January 20, 2023 Board Meeting  
AGENDA ITEM 7  
SONRISA AFFORDABLE HOUSING PROJECT - LOAN**

**CONTACT:** Renée Funston, Development Manager [CADA]  
Tom Kigar, Special Projects Director [CADA]  
Marc de la Vergne, Interim Executive Director [CADA]/Interim President [CACDC]

### **RECOMMENDED ACTION**

Staff recommends the CADA Board of Directors and the CACDC Board of Directors adopt resolutions authorizing a CADA loan.

#### **[CADA]**

1. Make a loan of \$425,000 to CACDC to fund further electrical construction related to the HVAC system.
2. Authorize an amendment to the CADA budget sufficient to fund the loan to the CACDC.
3. Take any and all actions on behalf of CADA to make the loan, including execution of all necessary documents, including a Promissory Note and Loan Agreement.

#### **[CACDC]**

1. Authorize the CACDC Interim President to accept the loan.

### **SUMMARY**

The Sonrisa budget and management plan anticipated that Sonrisa tenants would, starting upon occupancy of the project, receive a monthly bill from SMUD for their apartment lighting, appliances and HVAC costs. On January 6, staff learned that the HVAC system is wired to the common area meter, rather than to the individual apartment meters. Unless corrected, this issue will mean that the costs of the heating and air conditioning will not be included in each individual tenant's SMUD bill. Instead, CADA staff would need to prepare 58 separate monthly invoices for heating and cooling for the life of the project, which is at least 55 years. Staff feels this is not acceptable because it would place an undue burden on CADA's accounting staff and because CADA's intent was to have a wiring system that would enable individual metering of HVAC costs. The recommended loan would fund the cost to re-wire the HVAC units to correct the problem before tenants start moving into their units as anticipated at the beginning of March.

## **BACKGROUND**

The Board authorized a CADA Soft Gap Residual Financing Loan of \$1.5 million in May 2021 to address the shortage of funds remaining at completion of construction and after the project obtains the permanent sources of funding including Tax Credit Investor's Equity, Transit Oriented Development funding, deferred Developer Fees and permanent financing.

At the December 16, 2022 meeting, the Board approved a gap financing unsecured loan to the CACDC for the CACDC's use as an advance to the 1322 O St Investors LP ("the Partnership") for additional construction costs in an amount not to exceed \$1.4 million. The cost increases covered by this gap financing loan were due to supply chain issues, a short supply of labor, delays involved in design and approval of Cross Laminated Timber (CLT) as a result of it being new a concept, pushing the design team to meet aggressive funding deadlines and the result of limited time to fully coordinate among the contractor and the design team. WNC, the project's tax credit investor, is scheduled to pay in its \$3,650,434 equity investment between April to June 2023 upon receipt of a certificate of occupancy for the project. A portion of these funds is anticipated to be used by the Partnership to pay off the \$1.4 million Loan from CACDC to the Partnership at which time the CACDC will pay off the loan from CADA to the CACDC.

The intention of the above \$1.4 million gap financing loan was for it to cover all of the project's cost increases that exceeded the project's budget. Staff is now requesting the \$425,000 loan since learning of the need to re-wire the HVAC system subsequent to the above costs being incurred.

## **ANALYSIS**

The recent heavy rain has delayed construction completion by fourteen days, pushing completion to February 17. Tricorp estimates it will be able to finish the additional electrical work by March 3. The Partnership is up against a deadline to finish the project as close as possible to the end of February so we have time to obtain signed leases for all units by March 31. This will ensure the Partnership is not in violation of its Partnership Agreement with WNC, which requires all leases to be signed by March 31. Once a tenant signs a lease, they are given keys to their unit and are allowed to move in. Tax Credit regulations allow residents to delay their move-in by 5 days from signing their lease. Thus, all tenants will need to be moved in by April 5.

To meet this deadline, the project's architect, 19Six Architects, has obtained a revised electrical design that routes the wiring correctly and has submitted the revised design to the City Building Department for approval. The project's general contractor, Tricorp has received several proposals to re-wire the HVAC units and selected one with an NTE (Not-to-Exceed) amount of \$334,900 that would result in completion of construction by March 3.

Because of the critical importance of completing construction as soon as possible, staff is requesting a loan of \$425,000, which is \$90,100 more than the NTE proposal amount. This will provide a contingency fund for unforeseen circumstances and, if staff determines that a faster schedule is necessary to fund payment of overtime wages necessary to speed-up the work to achieve an earlier completion date than March 3 should it be necessary to provide more time to obtain signed leases for all units by March 31.

## **FINANCIAL IMPACT**

Included in the recommended action is a budget amendment to allocate \$425,000 from CADA 2020 Bond funds to fund the CADA loan to the CACDC. Currently, CADA has \$25,144,900 in remaining available bond funds.

### **ENVIRONMENTAL CONSIDERATIONS**

At the November 13, 2019 Board 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.

## RESOLUTION NO. 23 - 06

January 20, 2023

### RESOLUTION OF THE CAPITOL AREA DEVELOPMENT AUTHORITY BOARD OF DIRECTORS

Authorizing Actions as Follows:

#### [CADA]

1. Authorize CADA to make a loan of \$425,000 to CACDC to fund further electrical construction related to the Sonrisa HVAC system.
2. Authorize an amendment to the CADA budget sufficient to fund the loan to the CACDC.
3. Authorize the Interim Executive Director to take any and all actions on behalf of CADA to make the loan, including execution of all necessary documents, including a Promissory Note and Loan Agreement.

#### [CACDC]

1. Authorize the CACDC Interim President to accept the loan.

**WHEREAS**, the Sonrisa HVAC system has been incorrectly wired to the common area meter instead of to each tenant meter, and, if left uncorrected, will require CADA to prepare 58 separate monthly invoices for heating and cooling for the life of the project, which is at least 55 years; and

**WHEREAS**, requiring CADA to prepare such monthly invoices for heating and cooling would create an unnecessary burden; and

**WHEREAS**, Development costs are expected to increase by \$425,000 due to construction costs of \$334,900 to re-wire HVAC units the need for a contingency of \$90,100 to address unforeseen circumstances during construction and to speed up construction if necessary.

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

1. The FY 22-23 CADA budget is amended to include of \$425,000 in funds to provide a loan to the 1322 O St Investors LP limited partnership; and
2. The Interim Executive Director of CADA is authorized to take any and all actions on behalf of CADA to make a loan of \$425,000, including execution of all necessary documents and project loans.
3. The Interim President of the CACDC is authorized to accept the loan.

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Ann Bailey, Chair

ATTEST:

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Tara Gandara  
Secretary to the Board of Directors



## RESOLUTION NO. 23 – 02

January 20, 2023

### RESOLUTION OF THE BOARD OF DIRECTORS OF THE CAPITOL AREA COMMUNITY DEVELOPMENT CORPORATION

Authorizing Actions as Follows:

#### [CADA]

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2. Authorize an amendment to the CADA budget sufficient to fund the loan to the CACDC.
3. Authorize the Interim Executive Director to take any and all actions on behalf of CADA to make the loan, including execution of all necessary documents, including a Promissory Note and Loan Agreement.

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1. The FY 22-23 CADA budget is amended to include of \$425,000 in funds to provide a loan to the 1322 O St Investors LP limited partnership; and
2. The Interim Executive Director of CADA is authorized to take any and all actions on behalf of CADA to make a loan of \$425,000, including execution of all necessary documents and project loans.
3. The Interim President of the CACDC is authorized to accept the loan.

The foregoing Resolution was duly passed and adopted at a meeting of the Board of Directors of the Capitol Area Community Development Corporation held on January 20, 2023, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Ann Bailey, Chair

ATTEST:

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Jill Azevedo, Secretary