



December 13, 2024

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

**SUBJECT: December 17, 2024 Board Meeting
AGENDA ITEM 2
SONRISA AFFORDABLE HOUSING PROJECT AT 1322 O STREET – LOAN
EXTENSION**

CONTACT: Todd Leon, Development Director (CADA)
Danielle Foster, Executive Director (CADA)/President (CACDC)

RECOMMENDED ACTION

Staff recommends the CADA Board of Directors and the CACDC Board of Directors adopt a joint resolution authorizing an extension to CADA loans to the Sonrisa Affordable Housing Project at 1322 O Street.

[CADA Board Recommended Actions]:

1. Extend maturity date of two loans to the CACDC that were used to fund Sonrisa's additional construction costs.
2. Take any and all actions on behalf of CADA to extend the maturity dates, including execution of all necessary documents, including an Amendment to Loan Documents for each loan.

[CACDC Board Recommended Actions]:

1. Authorize the CACDC President to accept the loan extensions of the loan maturity dates.
2. Take any and all actions on behalf of the CACDC to extend the loan maturity dates, including execution of all necessary documents, including an Amendment to Loan Documents for each loan.

BACKGROUND

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

At the December 16, 2022 meeting, the Board approved an unsecured gap financing loan (Bridge 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 a new 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. The CACDC used \$1,192,142 of the loan funds to advance funds to the Partnership to pay for the Sonrisa construction cost increases. Repayment of the Bridge Loan promissory note was due upon the earlier of: 1) issuance of a WNC equity payment due upon Sonrisa's receipt of a certificate of occupancy in 2023 or 2) December 31, 2024. (WNC is the project's tax credit investor.)

On January 20, 2024 the CADA Board approved another loan ("Electrical Loan") to the CACDC in an amount not to exceed \$425,000. The CACDC used this loan to advance funds to the Sonrisa Partnership in order to fund a rewire of apartment unit HVAC Systems from the project's common area meter to the individual apartment meters, as necessary for CADA property management. The CACDC used a total \$334,852 of the loan funds for the rewire work, which was completed in late February of 2023.

On March 3, 2023, Sonrisa received a Temporary Certificate of Occupancy (TCO) from the City of Sacramento Building Department. After receiving the TCO, the CADA leasing management team immediately began moving tenants into the building. Sonrisa was fully occupied by the end of March 2023. Sonrisa received its final certificate of occupancy on April 5, 2023.

ANALYSIS

CADA Bridge Loan

The CADA Bridge Loan to the CACDC was used to advance funds to the Partnership in order to pay for additional construction costs. The loan was intended to be repaid to CADA once its next equity investment, which was due after Sonrisa received a certificate of occupancy. WNC paid an equity investment of \$3,650,434 to the Partnership in September of 2023. Although a portion of these funds were anticipated to be used by the Partnership to pay off the CADA Bridge Loan balance of \$1,192,142, the Partnership instead utilized a majority of the funds (\$2,250,000) to pay down the project's Taxable Construction Loan. The Partnership felt that it was in the best interest of the project to pay down the Taxable Construction Loan as it carried a high interest rate that could be a significant financial burden to the project. The remaining \$1,400,464 of the equity funds were kept in reserve to pay any carrying interest on the remaining construction loan until the permanent loan conversion was completed. Since the Partnership did not pay-off the Bridge Loan with the equity funds, the CACDC became in default to CADA on CADA's Bridge Loan. This now needs to be rectified.

The Sonrisa Permanent Loan conversion was anticipated to be completed by December 2023 but instead was delayed to May 31, 2024. The delay was due to procedural delays and regulatory conflicts that needed to be vetted and negotiated between lenders, investors, and DGS. The closing delay caused the project to hold the construction loan longer and accumulate additional interest that was not anticipated. Once the loan conversion was approved and all of the operational reserves, construction loan interest, and closing costs were paid, a total of \$605,846 of equity funds remains and can be used for the CADA Bridge Loan repayment.

According to Sonrisa's Limited Partnership Agreement, WNC is due to provide another \$637,000 of equity to the project once Sonrisa's placed-in-service package is approved by the IRS. The placed-in-service package was submitted in July 2024 and the approval is anticipated by April 2025.

Given the remaining \$605,846 of Construction Equity funds and the anticipated final equity investment of \$637,000 upon the placed-in-service package approval, it is anticipated the Bridge

Loan can be fully repaid to CADA in late spring of 2025. Staff is requesting to extend the Bridge Loan maturity date to June 30, 2025.

CADA Electrical Loan

The Electrical Loan to the CACDC was written with similar terms as the Bridge Loan. It was scheduled to be repaid by the earlier of: 1) the Certificate of Occupancy ("C of O") WNC equity payment or 2) December 31, 2024. Like the Bridge Loan, staff did not utilize the equity fund payment at C of O to pay-off this loan and instead utilized those funds to pay-off construction principal to reduce loan interest before permanent loan conversion. Since the loan was not repaid, at this point the loan is in default and the maturity date needs to be extended.

Since the completion of Sonrisa's construction, CACDC staff and legal counsel have pursued an errors and omissions claim against the Sonrisa design team to recoup the funds spent on the electrical repairs and repay the CADA Electrical Loan. This claim is due to CACDC's original and consistent direction to the design team on sub-metering the electrical. Staff spent a number of months gathering information on the electrical error and other possible errors and omissions made by the design team. In October 2023, the first claim focused solely on the electrical error and was submitted to Williams Paddon/19Six Architects who confirmed receipt and tendered the issue to their insurance. Additionally, the architect's sub-consultant, Edge Electrical, was also brought into the claim by the architect's insurance provider. The claim process has been slow over the course of the last year. The claim is still pending and staff anticipates the electrical claim will be resolved favorably in the next six months, allowing the CADA Electrical Loan to be paid-off. Accordingly, staff is requesting to extend the loan maturity date to June 30, 2025.

FINANCIAL IMPACT

The CADA Board approved up to \$1.4 Million of CADA 2020 Bond funds for the CADA Bridge Loan amount, of which CACDC utilized \$1,192,142 for Sonrisa's construction. The CADA Board also approved \$425,000 from CADA 2020 Bond funds to fund the CADA Electrical Loan to the CACDC. A total of \$334,852 was drawn from the CADA Electrical Loan. Currently, CADA has \$12,599,900 in remaining available bond funds, outside of these loans to Sonrisa.

ENVIRONMENTAL CONSIDERATIONS

No environmental review is required by this administrative action.

POLICY

The proposed action addresses the following 2024-2029 CADA Strategic Plan goals: "Ensure Fiscal Strength and Operational Excellence" and "Deliver Community Development Leadership."

Attachment 1: Amendment to CADA Bridge Loan

Attachment 2: Amendment to CADA Electrical Loan

Attachment 3: CADA Resolution 24-52 & CACDC Resolution 24-08

**FIRST AMENDMENT TO
LOAN DOCUMENTS
(\$1.4M LOAN)**

This First Amendment to Loan Documents ("Amendment") is made and entered into on December __, 2024 ("Effective Date"), by and between the **Capitol Area Community Development Corporation**, a California non-profit public benefit corporation ("Borrower"), and the **Capitol Area Development Authority**, a California joint powers agency ("Lender").

RECITALS

A. On or about February 10, 2023, Borrower and Lender entered into that certain Loan Agreement ("Loan Agreement") for a loan in the amount not to exceed \$1,400,000 ("Loan"), evidenced by an Unsecured Promissory Note ("Note") made by Borrower in favor of Lender.

B. The proceeds of the Loan were used by Borrower in the mixed-use project known as Sonrisa (the "Project"), owed by O St Investors LP, a California limited partnership, of which Borrower is the Managing Member.

C. The outside Maturity Date of the Loan is December 31, 2024, however, due to delays in the Project, Lender and Borrower desire to extend the outside Maturity Date to June 30, 2025, and amend the terms of the Note and Loan Agreement accordingly.

NOW, THEREFORE, the parties hereby agree as follows:

AGREEMENT

1. Amended Maturity Date. Section 3 of the Note, and Section 1.4 of the Loan Agreement, are hereby amended and restated as follows: "The Loan will mature on the earlier of (a) the date that the Limited Partner and the Special Limited Partner make their Capital Contribution to the Partnership under Section 7.2(b) of the Amended and Restated Agreement of Limited Partnership dated June 1, 2021, between Borrower and Cyrus Youssefi, or (b) June 30, 2025."

2. Remaining Terms Unaffected. Except as expressly provided herein, nothing in this Amendment shall be deemed to waive or modify any of the other provisions of the Note or Loan Agreement. In the event of any conflict between this Amendment and the Note or Loan Agreement, the terms of this Amendment shall prevail, but all other terms of the Note and Loan Agreement shall remain in full force and effect.

BORROWER: **Capitol Area Community Development Corporation,**
a California non-profit public benefit corporation

By: _____
Danielle Foster, President

LENDER: **Capitol Area Development Authority,**
a California joint powers agency

By: _____
Danielle Foster, Executive Director

**FIRST AMENDMENT TO
LOAN DOCUMENTS
(\$425,000 LOAN)**

This First Amendment to Loan Documents ("Amendment") is made and entered into on December __, 2024 ("Effective Date"), by and between the **Capitol Area Community Development Corporation**, a California non-profit public benefit corporation ("Borrower"), and the **Capitol Area Development Authority**, a California joint powers agency ("Lender").

RECITALS

A. On or about February 10, 2023, Borrower and Lender entered into that certain Loan Agreement ("Loan Agreement") for a loan in the amount not to exceed \$425,000 ("Loan"), evidenced by an Unsecured Promissory Note ("Note") made by Borrower in favor of Lender.

B. The proceeds of the Loan were used by Borrower in the mixed-use project known as Sonrisa (the "Project"), owed by O St Investors LP, a California limited partnership, of which Borrower is the Managing Member.

C. The outside Maturity Date of the Loan is December 31, 2024, however, due to delays in the Project, Lender and Borrower desire to extend the outside Maturity Date to June 30, 2025, and amend the terms of the Note and Loan Agreement accordingly.

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BORROWER: **Capitol Area Community Development Corporation,**
a California non-profit public benefit corporation

By: _____
Danielle Foster, President

LENDER: **Capitol Area Development Authority,**
a California joint powers agency

By: _____
Danielle Foster, Executive Director

CADA RESOLUTION NO. 24 – 52
CACDC RESOLUTION NO. 24 – 08

December 17, 2024

Adopted by the:

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

Joint resolution authorizing action to:

[CADA]

1. Extend the maturity date of two CADA loans to the CACDC that were used to fund Sonrisa's additional construction costs.
2. Take any and all actions on behalf of CADA to extend the loan maturity dates, including execution of all necessary documents, including an Amendment to Loan Documents for each loan.

[CACDC]

1. Authorize the CACDC President to accept the extensions of the loan maturity dates.
2. Take any and all actions on behalf of the CACDC to extend the loan maturity dates, including execution of all necessary documents, including an Amendment to Loan Documents for each loan.

WHEREAS, On February 10, 2023, the CACDC (Borrower) and CADA (Lender) entered into a certain Loan Agreement for a loan in the amount not to exceed \$1,400,000 ("Bridge Loan"), evidenced by an Unsecured Promissory Note made by Borrower in favor of Lender.

WHEREAS, On February 10, 2023, Borrower and Lender entered into a certain Loan Agreement for a loan in the amount not to exceed \$425,000 ("Electrical Loan"), evidenced by an Unsecured Promissory Note made by Borrower in favor of Lender.

WHEREAS, the proceeds of the Loans were used by Borrower in the mixed-use project known as Sonrisa (the "Project"), owned by O St Investors LP, a California limited partnership, of which Borrower is the Managing Member.

WHEREAS, the outside Maturity Date of the Loan is December 31, 2024, however, due to delays in the Project, Lender and Borrower desire to extend the outside Maturity Date to December 31, 2025, and amend the terms of the Note and Loan Agreement accordingly.

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

1. The terms of the Promissory Notes and Loan Agreements for the Bridge Loan and Electrical Loan shall be extended to a new Maturity Date of June 30, 2025, as shown in the attached.
2. The Executive Director of CADA is authorized to take any and all actions on behalf of CADA to extend the loan maturity date of both loans, including execution of all necessary documents, including an Amendment to Loan Documents for each loan.

Attachment 3

3. The President of the CACDC is authorized to take any and all actions on behalf of CADA to extend the loan maturity date of both loans, including execution of all necessary documents, including an Amendment to Loan Documents for each loan.

Capitol Area Development Authority

Ann Bailey, Chair

ATTEST:

Tara Gandara
Secretary to the Board of Directors

Capitol Area Community Development Corporation

Danielle Foster, President

ATTEST:

Tara Gandara
Secretary to the Board of Directors