



December 1, 2025

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

**SUBJECT: December 15, 2025 Board Meeting  
AGENDA ITEM 11  
SONRISA AFFORDABLE HOUSING PROJECT AT 1322 O STREET – LOAN  
EXTENSIONS**

**CONTACT:** Jack Barnes, Development Manager (CADA)  
Danielle Foster, Executive Director (CADA), President (CACDC)  
Josh Palmer, Deputy Director (CADA), Vice 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 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 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 equity from the project's tax credit investor WNC, Transit-Oriented Development funding from HCD, deferred Developer Fees and permanent financing.

#### **Bridge Loan**

At the December 16, 2022 meeting, the Board approved an unsecured gap financing loan (Bridge Loan) to CACDC for 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. 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 (C of O) or 2) December 31, 2024. CACDC ultimately used \$1,192,142 of the loan funds to advance funds to the Partnership to pay for the Sonrisa construction cost increases.

CACDC intended to repay the Bridge Loan at that first trigger – WNC's certificate of occupancy equity installment. However, procedural delays and regulatory conflicts that needed to be vetted and negotiated between lenders, investors, and DGS delayed the taxable construction loan's conversion to a permanent loan, causing significant accumulation of interest on the construction loan. So, when the Partnership received this \$3.6 million it decided it was better used to pay down that construction loan rather than the Bridge Loan. The Partnership used the majority of the \$3.6 million for this purpose – \$2,250,000 – and kept the remaining \$1,400,464 of the equity funds in reserve to pay any carrying interest on the remaining construction loan until the permanent loan conversion was completed. As a consequence, CACDC became in default on CADA's Bridge Loan.

### **Electrical Loan**

On January 20, 2023, the CADA Board approved another loan ("Electrical Loan") to CACDC in an amount not to exceed \$425,000 to fund a rewire of apartment unit HVAC systems from the project's common area meter to the individual apartment meters, per CADA property management requirements. The Electrical Loan to CACDC was written with similar terms as the Bridge Loan with repayment scheduled by the earlier of: 1) the C of O WNC equity payment or 2) December 31, 2024.

CACDC used a total \$334,852 of the loan funds for this work, which was completed in late February 2023. 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. Thus, CACDC also became in default on CADA's Electrical Loan.

In its December 2024 Board meeting, the CADA Board of Directors approved extensions of the maturity dates for both the Bridge Loan and the Electrical loans to June 30, 2025.

### **ANALYSIS**

CACDC had different reasons for believing that it would be able to pay off the Bridge Loan and the Electrical Loan by their new, extended maturity dates of June 2025. For the Bridge Loan, it anticipated using WNC's final placed-in-service-triggered equity installment of \$637,000 plus the project's \$605,846 post-permanent loan conversion remaining equity. The placed-in-service package was submitted in July 2024 and the approval was anticipated by April 2025 at the time of the first loan maturity date extension. However, due to issues with the land lease and the requirement that there be a land lease rider, the placed-in-service package has taken longer than expected. For this reason, staff is recommending that CADA extend the maturity date to December 31, 2026, which should be ample time to work through remaining items with the California Tax Credit Allocation Committee.

Regarding the Electrical Loan, pursuit of an errors and omissions claim against the Sonrisa design team – compensation from which would be used to repay the Electrical Loan – has taken longer than anticipated. Since completion of Sonrisa's construction, CACDC staff and legal counsel have sought to recoup the funds spent on the electrical repairs. In the claim, CACDC maintains that its original direction was to sub-meter the units and that its subsequent directions were consistent on that point. 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. 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. CACDC's legal counsel has served 19Six with a written discovery and is confident that this claim can be resolved in the next calendar year. Accordingly, staff is requesting to extend the loan maturity date to December 31, 2026.

### **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 CACDC. A total of \$334,852 was drawn from the CADA Electrical Loan. The steps outlined above are being pursued to repay these loans and ensure the funding is available for future CADA projects.

### **ENVIRONMENTAL CONSIDERATIONS**

No environmental review is required by this administrative action.

### **POLICY**

By reducing the financial liability that a default on these two loans could present the Sonrisa project, CADA would be advancing its 2024-2029 CADA Strategic Plan goals to "Ensure Fiscal Strength and Operational Excellence" and "Deliver Community Development Leadership."

#### **Attachments:**

1. CADA Resolution 25-47 & CACDC Resolution 25-08
2. Amendment to CADA Bridge Loan
3. Amendment to CADA Electrical Loan

**CADA RESOLUTION NO. 25 – 47**  
**CACDC RESOLUTION NO. 25 – 08**

December 15, 2025

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; and

**WHEREAS**, the outside Maturity Date of both the Bridge Loan and Electrical Loan are June 30, 2025, however, due to delays in the Project, Lender and Borrower desire to extend the outside Maturity Dates of both loans to December 31, 2026, 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 December 31, 2026, as shown in the attached.

Attachment 1

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.
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

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Ann Bailey, Chair

ATTEST:

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Tara Gandara  
Secretary to the Board of Directors

Capitol Area Community Development Corporation

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Danielle Foster, President

ATTEST:

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Tara Gandara  
Secretary to the Board of Directors

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

This First Amendment to Loan Documents ("Amendment") is made and entered into on December 15, 2025 ("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 June 30, 2025, however, due to delays related to the Project's land lease rider, Lender and Borrower desire to extend the outside Maturity Date to December 31, 2026, 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) December 31, 2026."

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 11, 2025 ("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<sup>6</sup> 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 June 30, 2025, however, due to delays in the errors and omissions claim against the Project's design team, Project, Lender and Borrower desire to extend the outside Maturity Date to December 31, 2026, 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) December 31, 2026."

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