

City of Sacramento

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Date	Ver.	Action By	Action	Result
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Title:

(City Council / Housing Authority) Capitol Park Hotel - Approval of Loan Funds and Final Loan Documents [Published for 10-Day Review 11/05/2020]

File ID: 2020-01242

Location: 1117, 1121, 1125, 1127, 1129 and 1131 9th Street; District 4

Recommendation:

Adopt: 1) a City Council Resolution authorizing the Sacramento Housing and Redevelopment Agency (SHRA) to a) enter into and execute a \$10,100,000 Acquisition, Construction and Permanent Loan Agreement comprised of \$3,200,000 in HOME Investment Partnerships Program (HOME) funds, \$1,700,000 in Community Development Block Grant (CDBG) funds, \$1,100,000 in Housing Opportunities for Persons with AIDS (HOPWA) funds, \$1,800,000 in Housing Trust Funds (HTF), and \$2,300,000 in Mixed Income Housing Funds (MIHF) with Mercy Housing California, or related entity (Developer) for the Capitol Park Hotel affordable, permanent supportive and workforce housing development (Project); b) execute all necessary documents associated with this action; c) amend the SHRA budget; and d) make related findings; and 2) a Housing Authority Resolution authorizing the Executive Director, or designee, to a) enter into and execute a \$3,200,000 Acquisition, Construction and Permanent Loan Agreement comprised of Housing Authority Successor Agency (HASA) funds with the Developer for the Project; b) execute all necessary documents associated with this action; c) release a deed of trust and regulatory agreement related to an existing Housing Authority loan; d) amend the Housing Authority budget; and e) make related findings.

Contact: Christine Weichert, Assistant Director, (916) 440-1353; Tyrone Roderick Williams, Director of Development, (916) 440-1316, Sacramento Housing and Redevelopment Agency

Presenter: Anne Nicholls, Management Analyst, (916) 440-1353, Sacramento Housing and Redevelopment Agency

Attachments:

- 01-Description/Analysis
- 02-Vicinity Map
- 03-Picture of Project
- 04-Residential Project Summary
- 05-Cash Flow Proforma
- 06-Maximum Income and Rent Limits
- 07-City Council Resolution - CDBG, HOME, HOPWA, HTF and MIHF
- 08-Exhibit A: CDBG, HOME, HOPWA, HTF and MIHF Loan Documents
- 09-Housing Authority Resolution - HASAF
- 10-Exhibit A: HASAF Loan Documents

Description/Analysis

Issue Detail: The Capitol Park Hotel (Property), located at 1125 9th Street in downtown Sacramento, was built in 1912 and was operated as a 180-unit single room occupancy (SRO) residential hotel and temporary shelter. The current owner of the Property is 1121 9th Street, LLC, a related entity to Mercy Housing California.

Prior Approvals

On February 11, 2020, the Sacramento City Council (Council) adopted a resolution approving the Single Room Occupancy (SRO) Withdrawal, Conversion Certificate and Replacement Housing Plan for Capitol Park Hotel.

Also on February 11, 2020, the City Council and Housing Authority Board (Board) approved a \$7,600,000 Loan Commitment (Loan Commitment) comprised of \$1,700,000 in City Community Development Block Grant (CDBG) funds, \$1,100,000 in Housing Opportunities for Persons with AIDS (HOPWA) funds, \$800,000 in City Housing Trust Funds (HTF), \$2,300,000 in Mixed Income Housing Funds (MIHF) and \$1,700,000 Housing Authority Successor Agency (HASA) funds to assist Mercy Housing California, or related entity (Developer), with acquisition, construction and permanent financing for the Capitol Park Hotel affordable, permanent supportive and workforce housing development located downtown at 1125 9th Street (Project).

The Board also adopted a resolution on February 11, 2020, authorizing the Executive Director, or designee, of the Housing Authority of the City of Sacramento (HACS) to enter into and execute a \$1,500,000 predevelopment loan agreement and related documents comprised of HASA funds with the Developer for the Project (Predevelopment Loan). Subject to approval by the Board, the

Developer and HACS are requesting to refinance and incorporate the Predevelopment Loan with the previously approved HASA funds for a total of \$3,200,000 in HASA funds for an acquisition, construction and permanent loan to the Developer for the Project.

Between March to August 2020, the final structural and electrical testing and investigation on the building, and the State Historic Preservation Officer's (SHPO) historic preservation were completed. These latest developments resulted in significant Project cost increases to satisfy the structural, electrical and SHPO requirements, which include: 1) reinforced concrete frames and structural steel to provide the Project with seismic force-resisting systems in the building to resist earthquakes, 2) exterior brick repair and reinforcement, 3) structural shear reinforcement in the floor structure and historic stairwells, 4) increased gypsum underlayment onto the floors to meet current fire codes and prepare a uniform, level surface for floor covering installation, 5) increased fire barriers and assemblies, 6) new transformer and 7) entirely new electrical system.

On August 3, 2020, the Developer submitted a funding application to the Sacramento Housing and Redevelopment Agency (SHRA) requesting an additional \$4,200,000 loan to finance this increased scope of development in the Project. SHRA's construction staff reviewed and approved the additional scope of development and construction budget. Subject to approval by Council, the additional loan will be comprised of \$3,200,000 in HOME Investment Partnerships Program (HOME) funds and \$1,000,000 in HTF.

Project Description

The Capitol Park Hotel Project is the proposed rehabilitation of a historic 180-unit single room occupancy building into 134 studio, affordable, permanent supportive and workforce housing units that include new kitchenettes with a small refrigerator, sink, two-burner cooktop and microwave shelving; new full bathrooms; and new furnishings including twin bed frames and mattresses, nightstands, dressers and window blinds. Inclusive of the 134 units, there will be 17 Americans with Disabilities Act (ADA) compliant accessible units and seven (7) additional units will have communication features. Improvements will be made to the structural and seismic systems, two elevators, stairwells, plumbing, electrical, lighting, fire systems, heating, ventilation and air conditioning (HVAC) systems, flooring, ceiling, walls, basement for storage, and sidewalk support systems. New community amenities include management and service office space, 24/7 desk clerk area, community room, community kitchen area, laundry facility, restrooms, and meeting areas for individual and group settings. Bicycle parking will be available onsite. Further details of the Project's scope of development are attached to the Loan Documents as Exhibit 2. The vicinity map and picture of the Project are included as Attachments 2 and 3.

Project Based Vouchers and No Place Like Home

In 2018, SHRA awarded 134 Project Based Vouchers (PBV) to be used for homeless households at Capitol Park Hotel. In 2019, the State Department of Housing and Community Development (HCD) awarded the Project \$9,690,825 in No Place Like Home Program (NPLH) funds. The NPLH Program provides funding to households that have been designated homeless and that

include at least one household member living with mental illness. Inclusive of the 134 PBV units, 65 of the units will be designated as NPLH units. Of the 65 NPLH units, 26 units will be allocated to the category of “Chronically Homeless,” 19 units to the category of “Homeless,” and 20 units to the category “At Risk of Homelessness.”

Developer: Mercy Housing California, or related entity, will serve as the Developer. The Developer is a non-profit public benefit corporation dedicated to providing quality affordable housing with supportive programs to low-income individuals in California. Mercy Housing has developed more than 11,000 affordable homes, including over 8,000 rental and 3,000 homeownership units. Their portfolio includes 20 properties with over 1,400 units in Sacramento County. The Developer is qualified to repurpose the Capitol Park Hotel given its experience in the rehabilitation of the Budget Inn on Stockton Boulevard into the 74-unit Boulevard Court Apartments, and the 92-unit Courtyard Inn Apartments, both of which are permanent supportive housing developments.

Property Management Agent: The Project will be managed by Mercy Housing Management Group, an affiliate of the Developer. The Property Management Agent manages more than 220 properties nationally (more than 11,000 affordable housing units), including over 100 properties in California. The management plan has been reviewed and approved by SHRA staff.

Supportive Services: The Sacramento County Department of Health Services (DHS) will be responsible for the mental health supportive services and the coordination of other supportive services needed by the 65 NPLH residents for a minimum of 20 years as required by the State NPLH program and SHRA. In addition to DHS on-site supportive services, WellSpace Health will provide supportive services to the remaining 69 PBV homeless residents not served by NPLH.

Resident Services: Resident services will be provided by Mercy Housing California. The resident services staff will include one coordinator and one case manager. Resident Services include, but are not limited to education, workforce development, enrichment and transportation assistance (e.g., light rail/bus passes). Case management programs include, but are not limited to coordination with the County Department of Human Assistance and WellSpace Health, housing retention services, crises intervention, and life skills instruction such as budgeting, cooking and nutrition. SHRA staff has reviewed Mercy Housing’s qualifications and the resident services plan, and has found that the proposed resident services provider and resident services plan meet SHRA requirements.

Security Plan: SHRA staff has reviewed and approved the security plan which includes a 24/7 desk clerk, installation of security cameras and recording equipment, and installation of new lighting in common areas.

Project Financing: In addition to the \$10,100,000 SHRA loan comprised of CDBG, HOME, HOPWA, HTF and MIHF program funds, and HACS \$3,200,000 loan comprised of HASA funds with the Developer, the financing structure of the Project includes competitive nine percent Low Income Housing Tax Credits (LIHTC), competitive state tax credits in the form of a general partnership loan, historic tax credits, competitive NPLH loan, noncompetitive NPLH loan, Affordable Housing Program

(AHP) loan, general partnership contribution and fee waivers.

HOPWA funds are allocated to the City of Sacramento to be used for projects and programs that serve eligible HIV or AIDS individuals within the HOPWA grant service area which includes Sacramento, Yolo, Placer, and El Dorado counties.

In addition, SHRA has committed a total of 134 PBVs to this Project. Project Based Vouchers are awarded in accordance with SHRA's administration of the Housing Choice Voucher Program as authorized by section 8(o)(13) of the U.S. Housing Act of 1937 (42 U.S.C. 1437f(o)(13)) and is based on the Public Housing Authority's Annual Plan. The Plan is approved annually by the federal Department of Housing and Urban Development (HUD).

Low-Income Set-Aside Requirements: As a condition of receiving tax credits, federal law requires that rental units be set aside for targeted-income groups. Income restrictions from LIHTC financing require that no households have income above 60 percent of Area Median Income (AMI). All affordable housing units will be regulated for a period of 55 years by the California Tax Credit Allocation Committee as a LIHTC funding requirement. Regulatory restrictions on the property will be specified in the HASA regulatory agreement between the Developer and HACS for a period of 55 years. Regulatory restrictions on the property will be specified in the HTF and MIHO regulatory agreement between the Developer and SHRA for a period of 30 years. Regulatory restrictions on the property will be specified in CDBG, HOME and HOPWA regulatory agreements between the Developer and SHRA for a period of 15 years. The 134 Project Based Vouchers (PBV) to house homeless households at the Project will be administered by HACS. Compliance with the regulatory agreement will be monitored by SHRA staff on an annual basis during the 55-year regulatory period.

Funding sources and uses and cash flow for the Project are included in Attachments 4 and 5. A schedule of maximum income and rents are included as Attachment 6. The anticipated affordability requirements are summarized in the below table.

Affordability Restrictions (55 years) ¹	Units	% of Units
Extremely Low Income (20% AMI)	65	49%
Very Low Income (40% AMI)	69	51%
Total	134	100%

¹Pursuant to 24CFR 983.301, contract rents approved by HUD may exceed the tax-credit rent limits. The tenant rent will not exceed 30% of the household adjusted gross income with PBV.

Policy Considerations: The recommended actions for both phases of the development are consistent with: a) SHRA approved Multifamily Lending and Mortgage Revenue Bond Policies (Council Resolution 2019-0452 and Board Resolution 2019-0022), Affordable Housing Priority 2(i), Conversion of Non-Residential to Residential Use for Permanent Supportive Housing and Homeless Housing, and Priority 2(iii), Workforce Housing; b) the 2013-2021 Housing Element, Goals H-1.1.1 Sustainable housing practices; H-1.2.9, in part, Workforce Housing, especially in and around

downtown; H-1.3.2 Economic integration of multifamily affordable housing projects; H-2.2.4, in part, Pursue and maximize the use of all appropriate state, federal, local and private funding for the development of housing affordable for extremely low-, very low-, and low-income households, while maintaining economic competitiveness in the region; H-3.1.1 Promote extremely low income housing; H-3.2.8 Provide funding and other resources for permanent supportive housing; H-3.2.9, in part, Prioritization of Special Needs Housing, such as chronically homeless individuals or families for available local affordable housing financing as set forth in the City's Multifamily Lending and Mortgage Revenue Bond Policies administered by SHRA; and projects that augment or safeguard the City's inventory of single room occupancy units will also have the same priority; and H-5.1 to 5.4, in part, Promote and create accessible residential development (Resolution No. 2013-415); and c) the Sacramento Promise Zone Plans and Goals, Sustainably Built Community sub-goal to increase housing types and transit growth to promote livability and connectivity within the Promise Zone (Resolution No. 2015-263).

In addition, the recommended actions for the development are located in a) the Downtown Housing Initiative and Initiation of the Downtown Specific Plan, to bring 10,000 places to live to Downtown Sacramento by 2025 (Resolution No. 2015-282), and b) the Opportunity Zone that provides a federal tax incentive for investors, who invest in real estate projects and operating businesses located in designated low-income communities through deferral and partial tax reductions of reinvested capital gains and forgiveness of tax on new capital gains (enacted into federal law through the Tax Cuts and Jobs Act of 2017).

The Sacramento City Code Section 4.04.020 and Council Rules of Procedure (Chapter 7, Section E.2.d) mandate that unless waived by a 2/3 vote of the City Council, all labor agreements and all agreements greater than \$1,000,000 shall be made available to the public at least ten (10) days prior to council action. This contract was published for 10-day review on November 5, 2020 as required.

Economic Impacts: The Capitol Park Hotel multifamily residential project is expected to create 411.60 total jobs (233.24 direct jobs and 178.36 jobs through indirect and induced activities) and create \$34,300,000 in total economic output (\$20,907,987 of direct output and another \$13,392,013 of output through indirect and induced activities).

The indicated economic impacts are estimates calculated using a calculation tool developed by the Center for Strategic Economic Research (CSER). CSER utilized the IMPLAN input-output model (2009 coefficients) to quantify the economic impacts of a hypothetical \$1 million of spending in various construction categories within the City of Sacramento in an average one-year period. Actual impacts could differ significantly from the estimates and neither the City of Sacramento nor CSER shall be held responsible for consequences resulting from such differences.

Environmental Considerations:

California Environmental Quality Act (CEQA): The Capitol Park Hotel Project has been found

to be exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines, Article 19, Categorical Exemptions, Section 15332, In-Fill Development Projects.

National Environmental Policy Act (NEPA): An Environmental Assessment (EA) was prepared for this project pursuant to the National Environmental Policy Act (NEPA), and it was found that with mitigation measures incorporated, the project will not result in a significant impact on the quality of the human environment.

Sustainability: The Project has been reviewed for consistency with the goals, policies and targets of the Sustainability Master Plan and the 2030 General Plan. If approved, this Project will advance the following goal, policy and target of goal number one - Energy Independence, specifically by reducing the use of fossil fuels and providing long-term affordable and reliable energy.

Commission/Committee Action: *Sacramento Housing and Redevelopment Commission:* It is anticipated that at its November 4, 2020 meeting, the Sacramento Housing and Redevelopment Commission will approve the staff recommendation for this item. Staff will notify the Council in the event the item is not approved.

Rationale for Recommendation: The actions recommended in this report enable SHRA to continue to fulfill its mission of providing a range of affordable housing opportunities in the City and are consistent with the SHRA's approved Multifamily Lending and Mortgage Revenue Bond Policies, the City of Sacramento's 2013-2021 Housing Element as part of Sacramento's 2035 General Plan, Promise Zone Plans and Goals, Downtown Housing Initiative and Initiation of the Downtown Specific Plan and the Opportunity Zone Program.

Financial Considerations: The \$13,300,000 loan comprised of \$3,200,000 in HOME, \$1,700,000 in CDBG, \$1,100,000 in HOPWA, \$1,800,000 in HTF, \$2,300,000 in MIHF and \$3,200,000 in HASA program funds will have a term of 57 years with a zero percent (0%) interest rate. SHRA will receive a one-time lender fee of 0.25 percent of the loan amount, which is payable at loan closing, and annual payment for monitoring the regulatory restrictions and administration of the loans in the amount of 0.125 percent of the loan amount. SHRA will also receive a \$100 annual administrative fee for each assisted unit. The total administrative fee will not exceed \$15,000 annually for the affordable units during the 55-year regulatory term.

Local Business Enterprise (LBE), Minority and Women's Business Enterprise (M/WBE) and Section 3 requirements: Local Business Enterprise requirements do not apply to this report. Minority and Women's Business Enterprise requirements and Section 3 will be applied to all activities to the greatest extent feasible and as required by federal funding and in accordance with SHRA's Section 3 Economic Opportunity Plan. The Developer and general contractor will work with SHRA's Section 3 Administrator, the Sacramento Employment and Training Agency, the Greater Sacramento Urban League or similar entities, to promote employment opportunities.

