

# City of Sacramento

## Legislation Text

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**File #:** 2019-01288, **Version:** 1

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**Title:**

**(Housing Authority) Approval of Final Rental Assistance Demonstration (RAD) and Loan Documents, and Ground Lease for the RAD Phase 1 Project**

File ID: 2019-01288

**Location:** 4921 Folsom Boulevard and 1043 43rd Avenue, Districts 3 and 5

**Recommendation:**

Adopt a Housing Authority Resolution for the RAD Phase 1 Project authorizing the Executive Director, or designee, to a) enter into and execute all necessary documents, agreements and certificates, including, but not limited to the RAD Documents, Acquisition Documents, Seller Carryback Loan Documents, Construction-Permanent Loan Documents, Ground Lease Loan Documents, the Governmental Note, Pledge Obligations, Assignment/Subordination Documents, Administrative Services Agreement, Property Management Agreement, Assignment of Services Contracts, Option/ROFR Documents, and any and all other documents necessary for the Housing Authority of the City of Sacramento (Housing Authority) to convert the Project through the RAD Program, convey the leasehold interest in the Land and fee interest in the Improvements, consummate and subordinate the Seller Carryback Loan, the Construction-Permanent Loan, and the Ground Lease Loan, and otherwise reasonably assist the Partnership in securing the financing for the Project; b) perform actions necessary to convert the Project through the RAD Program, including, but not limited to amending the Housing Authority budget for financing the Project; and c) approving environmental and related findings.

**Contact:** Christine Weichert, Assistant Director, (916) 440-1353, Tyrone Roderick Williams, Director of Development, (916) 440-1316, LaTanna Jones, Assistant Director, (916) 440-1334, Sacramento Housing and Redevelopment Agency

**Presenter:** None

**Attachments:**

- 01-Description/Analysis
- 02 - Vicinity Map of Oak Park (4921 Folsom Boulevard)
- 03 -Vicinity Map of Meadow Commons (1043 43rd Avenue)
- 04-Vicinity Map of RAD Phase 1 (all six sites)
- 05-Photos of RAD Phase 1

- 06-Project Summary of RAD Phase 1
- 07-Cash Flow Proforma of RAD Phase 1
- 08-Maximum Income and Rent Limits of RAD Phase 1
- 09-Housing Authority Resolution
- 10-Exhibit A - Seller Carryback Loan Documents, including the Scope of Development
- 11-Exhibit B - Construction - Permanent Loan Documents, including the RAD Use Agreement
- 12-Exhibit C - Disposition and Development Agreement, including the Ground Lease Loan Documents

## Description/Analysis

### Issue Detail:

#### Asset Repositioning Plan

On October 30, 2018, the Housing Authority Board of the City of Sacramento (Board) adopted Resolution No. 2018-0019 which approved updates to the Housing Authority Asset Repositioning Plan allowing for conversion of the public housing portfolio under the Rental Assistance Demonstration (RAD) and Section 18 Demolition and Disposition (Section 18) Programs. Additionally, the Board authorized the Housing Authority to submit an application to United States Department of Housing and Urban Development (HUD) to reposition and convert City Public Housing Properties under the Rental Assistance Demonstration (RAD) and Section 18 Demolition and Disposition Programs.

As part of the initial Asset Repositioning Plan, guiding principles were adopted to establish policy direction for each repositioning activity. The general objective of these principles was to prevent the loss of units for extremely low income households, facilitate a decreased reliance on federal funds, incorporate smart growth principles into development opportunities, reinvest sale proceeds into Housing Authority replacement units, foster partnerships with entities to position development efforts for success, and to pursue actions that would generate fees and other revenue for the Housing Authority. Conversion to RAD is a critical component of the Asset Repositioning Plan as RAD allows public housing agencies (PHAs) to convert public housing units to long-term, Project Based Voucher rental assistance developments which facilitates access to private debt and equity to address immediate and long-term capital needs.

#### RAD and HOTMA Project Based Vouchers

On November 30, 2018, HUD approved a joint application from both the City and County Housing Authorities authorizing conversion of 124 public housing units to the RAD Program and also approved 118 RAD Program specific Project Based Vouchers. These vouchers are new to Sacramento and will increase the total number of vouchers administered by the County Housing

Authority. HUD has the authority to remove five percent (six units) of the 124 units from the RAD Program to allow for higher contract rents without impacting the tenant rents as authorized by Public and Indian Housing (PIH)-2012-32 (HA) H-2017-03, REV-3.

On May 17, 2019, the Housing Authority staff requested and HUD approved the remaining six units without RAD vouchers to participate in HUD's Housing Opportunity Through Modernization Act (HOTMA) Project Based Voucher (PBV) Program. These HOTMA PBVs are from existing Housing Authority vouchers and are required in order to provide long-term operating feasibility for the Project. Subject to annual appropriations and compliance with PBV program requirements, the RAD and HOTMA vouchers will remain at the Project as long as the Housing Authority has an ownership interest in the properties.

Conversion of the properties to RAD requires a Use Agreement with HUD and a 99-year ground lease that includes affordability restrictions on the land beyond the 55-year tax credit affordability term. RAD conversion will not change the composition of the units which will continue to target households with incomes at or below 80 percent of the area median income. The Housing Authority will maintain its ground lease and ownership interest in the land to ensure that affordability restrictions do not expire. The PBV and HOTMA allocations for the six scattered sites are summarized in the table below.

### **RAD Phase 1 - RAD and HOTMA Project Based Vouchers**

<b>Six Scattered Sites</b>	<b>Location and Jurisdiction</b>	<b>RAD PBV</b>	<b>HOTMA PBV</b>	<b>Total PBV</b>
Pointe Lagoon Site 1	4500 Perry Ave. County of Sacramento	5	5	10
Pointe Lagoon Site 2	4930 El Paraiso Ave. County of Sacramento	36	0	36
Pointe Lagoon Site 3	9205 Elk Grove Blvd. City of Elk Grove	16	0	16
Rio Garden	8223 Walerga Road County of Sacramento	24	0	24
Oak Park	4921 Folsom Blvd. City of Sacramento	10	0	10
Meadow Commons	1043 43rd Ave. City of Sacramento	27	1	28
<b>Total</b>		<b>118</b>	<b>6</b>	<b>124</b>

#### Loan Commitment and Option Agreement

On July 23, 2019, the Board adopted Resolution No. 2019-0012, which authorized the Housing

Authority to enter into a Loan Commitment and an Option Agreement for the Ground Lease and Purchase and Sale of Improvements, in an amount justified by an updated fair market value appraisal, with the Sacramento Housing Authority Repositioning Program, Inc., (SHARP), or related entity. Appraisals were updated on August 14, 2019.

#### Tax Credit and Tax Exempt Mortgage Revenue Bonds Allocation

On October 16, 2019, the California Tax Credit Allocation Committee (CTCAC) allocated four percent federal tax credits and the California Debt Limit Allocation Committee (CDLAC) awarded multifamily mortgage revenue bonds to the Project.

#### Financing Loan

On December 16, 2019, SHARP requested a \$950,000 construction and permanent financing loan from SHRA comprised of County HOME funds due to increased construction costs at the scattered sites located at 4500 Perry Avenue, 4930 El Paraiso Avenue and 8223 Walerga Road in the unincorporated area of the County of Sacramento. This loan does not affect City HOME funds.

Staff is requesting approval to enter into and execute all necessary documents, agreements and certificates necessary to carry out the RAD Phase 1 Project including, but not limited to the following:

- RAD Documents
- Acquisition Documents
- Seller Carryback Loan Documents
- Construction and Permanent Loan Documents
- Ground Lease Loan Documents
- Governmental Note
- Pledge Obligations
- Assignment/Subordination Documents
- Administrative Services Agreement
- Property Management Agreement
- Assignment of Services Contracts
- Option/Right of First Refusal (ROFR) Documents
- Any and all other documents necessary for the Housing Authority to convert the Project through the RAD Program.

Staff is also recommending approval to convey the leasehold interest in the Land and fee interest in the Improvements, to consummate and subordinate the Seller Carryback Loan, the Construction-Permanent Loan, and the Ground Lease Loan, and to otherwise reasonably assist the Partnership in securing the financing for the Project.

Finally staff is requesting authorization to amend the Housing Authority budget and allocate the following for the acquisition, construction and permanent financing of the Project as outlined below.

**RAD Phase 1 - Permanent Sources and Not To Exceed (NTE) Amounts**

<b>City Housing Authority Permanent Sources</b>	<b>NTE Amounts</b>
Housing Authority Capital Funds (Construction and Permanent Loan)	\$2,371,871
Cash Proceeds from the Sale of Improvements (Construction and Permanent Loan)	\$ 621,700
Seller Carryback Loan on the Improvements (or an amount justified by an updated fair market value appraisal)	\$1,042,600
Ground Lease Loan (or an amount justified by an updated fair market value appraisal)	\$1,340,000
<b>TOTAL</b>	<b>\$5,376,171</b>

Information on the Oak Park and Meadow Commons site which are located in the City of Sacramento is included in Attachments 2 through 4. Photos of all proposed RAD Phase 1 properties are included in Attachment 5. The scope of development for Oak Park and Meadow Commons sites is included as Exhibit 6 of the Seller Carryback Loan Agreement attached to the Housing Authority Resolution. Summary information is included below.

Oak Park Site

The Oak Park site is located at 4921 Folsom Boulevard. There are three buildings on approximately 0.73 acres that provide 10 three-bedroom units and 12 on-site parking spaces.

Meadow Commons Site

Meadow Commons is located at 1043 43rd Avenue. There are eight buildings on approximately 1.54 acres that provide 28 one-bedroom units, community room, barbecue area and 13 on-site parking spaces.

Developer: The Developer of the Project will be the Sacramento Housing Authority Repositioning Program, Inc., (SHARP) which is a nonprofit public benefit corporation created by the Housing Authority in 2009 to implement the Housing Authority’s Asset Repositioning Strategy. Activities undertaken by SHARP include acquiring, developing, financing, rehabilitating, owning and operating affordable housing which enables aging Housing Authority assets to maintain and preserve their affordable units. SHARP partnered with BRIDGE Housing to rehabilitate a total of three Housing Authority properties, including Sutterview, Washington Plaza and Sierra Vista Apartments.

Property Management: Housing Authority staff will manage the RAD Phase 1 units. They currently manage the Sutterview, Washington Plaza and Sierra Vista Apartment complexes, along with over

3,000 other housing units throughout the City and County of Sacramento.

Resident Services: Housing Authority staff will provide resident services. Examples of services to be offered include the Family-Self Sufficiency Program for residents transitioning to work and the Service Coordination Program for those who do not have a high school diploma, or who have health or financial literacy needs. Elderly and disabled residents will receive services from Life Skills Training and Educational Programs (LifeSTEPS). In addition, the Housing Authority plans to expand the Jobs Plus Program by partnering with the Section 3 Program to develop training and job opportunities for residents.

Security Plan: The security plan includes installation of upgraded exterior lighting.

Project Financing: The proposed financing for RAD Phase 1 includes four percent Low Income Housing Tax Credits (LIHTC), tax exempt bonds, a conventional loan, Housing Authority seller carryback (improvements), cash proceeds note from the sale of improvements, Capital Fund and ground lease loans, a County HOME loan, a deferred developer fee, general partnership contribution, and RAD and HOTMA Program Project Based Vouchers (PBV).

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 80 percent of Area Median Income (AMI). The affordability restrictions will be specified in regulatory agreements between the Housing Authority and the Developer. The Project Summary and Proforma are included as Attachments 6 and 7. A schedule of maximum income and rents are included as Attachment 8. The anticipated funding sources and their affordability requirements are summarized in the table below for the Project:

**RAD Phase 1 - Affordability Levels**

Unit Type	Units	% of Units	Affordability Restriction <sup>1</sup> (55 years)
LIHTC, Tax-exempt Bonds, Housing Authority Funds, RAD PBV and County HOME Funds	53	43%	Very Low Income 50% of Area Median Income (AMI)
LIHTC, Tax-exempt Bonds, Housing Authority Funds and RAD PBV	60	48%	Low Income 60% of AMI

LIHTC, Tax-exempt Bonds, Housing Authority Funds and HOTMA PBV	6	5%	Low Income 60% of AMI
LIHTC, Tax-exempt Bonds, Housing Authority Funds and RAD PBV	5	4%	Low-Moderate Income 80% of AMI
<b>Total</b>	<b>124</b>	<b>100%</b>	

<sup>1</sup>Pursuant to 24CFR 983.301, contract rents approved by HUD may exceed the tax-credit rent limits; and the AMI change is due to income averaging regulation by CDLAC. The tenant rent will not exceed 30% of the household adjusted gross income with PBV.

**Policy Considerations:** The recommended actions for the Project are consistent with:

- a) HUD guidelines to reposition and convert City Public Housing Properties under the RAD Program;
- b) Housing Authority Asset Repositioning Plan; and
- c) the 2013-2021 Housing Element, Goals H-1.1.1 Sustainable housing practices; 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; and H-5.1 to 5.4 Promote, preserve and create accessible residential development (Resolution No. 2013-415); and is generally consistent with the approved Sacramento Housing and Redevelopment Agency’s (Agency) Multifamily Lending and Mortgage Revenue Bond Policies (Policies).

All affordable housing units will be regulated for a period of 99 years by the Housing Authority as a ground lease requirement; 55 years by the California Tax Credit and Debt Limit Allocation Committees as a LIHTC and bond funding requirement. Regulatory restrictions of the Project will be specified in the bond regulatory agreement between the Developer and the Housing Authority for a period of 55 years. The County HOME regulatory agreement between the Developer and Agency will be for a period of 15 years. Compliance with the ground lease and bond and HOME regulatory agreements will be monitored by the Agency on an annual basis.

**Economic Impacts:** The RAD Phase 1 multifamily residential project is expected to create 28.08 total jobs (15.91 direct jobs and 12.17 jobs through indirect and induced activities) and create \$2,339,966 in total economic output (\$1,426,355 of direct output and another \$913,611 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 disposition and rehabilitation of the identified properties under the RAD program have been found to be Categorical Exempt under CEQA pursuant to CEQA Guidelines Section 15301, "Existing Facilities". National Environmental Policy Act (NEPA): The disposition and rehabilitation of the identified properties under the RAD program have been found to be Categorical Excluded under NEPA pursuant to 24 CFR 58.35(a)(3)(ii) and (5), and convert to exempt pursuant to 24 CFR 58.34(a)(12).

**Sustainability Considerations:** The proposed Project has been reviewed for consistency with the goals, policies and targets of the Sustainability Master Plan and the 2030 General Plan. If approved, these projects 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:** At its meeting on February 5, 2020 the Sacramento Housing and Redevelopment Commission will review the staff recommendation for this item. Staff will notify the Board in the event the item is not approved.

**Rationale for Recommendation:** The recommended actions enable the Agency to continue to fulfill its mission of providing a range of affordable housing opportunities in the City and are consistent with HUD guidelines related to the repositioning and conversion of City Public Housing Properties under the RAD Program, Housing Authority Asset Repositioning Plan, 2013-2021 Housing Element as part of Sacramento's 2035 General Plan, and is generally consistent with the Agency's previously approved Multifamily Lending and Mortgage Revenue Bond Policies.

**Financial Considerations:** The proposed bond issuance will not be an obligation of the City, the Housing Authority or the Sacramento Housing and Redevelopment Agency. The bonds will be the obligation solely of the Project's owner, who will bear all costs associated with the issuance of the bonds. The Agency will receive a one-time issuance fee of 0.25 percent (25 basis points) of the bond amount which is payable at bond closing. The Agency will collect an annual payment for monitoring the regulatory restrictions and administration of the bonds, in the amount of 0.125 percent (12.5 basis points) of the bond amount for monitoring of the regulatory restrictions and administration of the bonds. The Agency will also receive a fee equal to \$100 for each of the five County HOME assisted units annually. The law firm Orrick, Herrington and Sutcliffe, LLP, is acting as bond counsel for the Housing Authority. The proposed Housing Authority Capital Funds loan not to exceed \$2,371,871, a cash proceeds note not to exceed \$621,700 from the sale of improvements, will each have an interest rate of three percent and a term of 55 years after construction is complete. The proposed

seller carryback improvements loan not to exceed \$1,042,600, and ground lease loan not to exceed \$1,340,000 or in an amount to be justified by a fair market value appraisal of the land and improvements, will each have an Applicable Federal Rate (AFR) and a term of 55 years after construction is complete.

**LBE - M/WBE and Section 3 requirements:** Minority and Women's Business Enterprise requirements and Section 3 will be applied to all activities to the greatest extent possible and as required by federal funding and in accordance with the Agency's Section 3 Economic Opportunity Plan. The Developer and General Contractor will work with the Agency's Section 3 Coordinator, Sacramento Employment and Training Agency, the Greater Sacramento Urban League or similar programs, to promote employment opportunities.