

City of Sacramento

Legislation Text

File #: 2018-01758, **Version:** 1

Title:

(Housing Authority) Approval of Final Loan Documents and Disposition of Land for Shasta Hotel

File ID: 2018-01758

Location: 1017 10th Street, District 4

Recommendation:

Adopt: 1) a Housing Authority Resolution: a) authorizing and approving the Sacramento Housing and Redevelopment Agency (Agency) to execute a \$4,200,000 Construction and Permanent Loan Agreement with Shasta Hotel Housing Associates, L.P. or related entity for the financing of the Shasta Hotel; b) authorizing and approving the Agency to enter into and execute other documents, as approved to form by agency counsel, and perform other actions necessary to fulfill the intent of the Loan Commitment; c) authorizing the Agency to amend its budget and, d) making related findings; and 2) a Housing Authority Resolution: a) authorizing the execution of an Acquisition Loan Agreement (Seller Carry-Back Loan) and related documents and Termination of Ground Lease and Memorandum of Lease to allow for transfer of the land beneath the Shasta Hotel to Shasta Hotel Housing Associates, L.P. and, b) authorizing the execution of the Assignment, Acknowledgement, Amendment and Acceptance of Tax Increment Regulatory Agreement, transferring the existing regulatory agreement to Shasta Hotel Housing Associates, L.P.

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Presenter: None

Attachments:

- 01-Description/Analysis
- 02-Vicinity Map
- 03-Project Summary
- 04-Cash Flow Proforma
- 05-Maximum Income and Rent Levels
- 06-Housing Authority Loan Agreement Resolution
- 07-Exhibit A to Resolution (Loan Agreement)
- 08-Housing Authority Land Acquisition Resolution

- 09-Exhibit A to Resolution (Seller Carryback Loan Agreement)
- 10-Exhibit B to Resolution (Termination of Ground Lease)
- 11-Exhibit C to Resolution (Assignment, Acknowledgement and Acceptance of Existing Regulatory Agreement)

Description/Analysis

Issue Detail: The Shasta Hotel (Project) is an affordable Single-Room Occupancy (SRO) residential housing development located on approximately 0.11 acres at 1017 10th Street in downtown Sacramento. The building was originally constructed in the early 1900s, and rehabilitated in 1994 by the Sacramento Housing and Redevelopment Agency (Agency).

The John Stewart Company (JSC) and the Shasta Hotel Corporation (collectively, "Developer") have formed a new limited partnership called Shasta Hotel Housing Associates, LP, a California limited partnership (SHHA), to acquire and rehabilitate the Project.

In February of 2017, the Housing Authority Board approved a loan of \$4,200,000 for the acquisition, rehabilitation, and permanent financing of the Project. Additional project financing will include federal tax credit equity, an Affordable Housing Program (AHP) loan, and an existing California Department of Housing and Community Development (HCD) loan. Units will be regulated at 30, 35 and 40 percent of Area Median Income (AMI). In addition, the Housing Authority approved the termination of the existing ground lease, which will be replaced by the transfer of the land and a seller carryback loan. In February of 2018, the project was awarded 56 project based vouchers which allow the Project to serve homeless that meet the definition of extremely low income. Finally, in September of 2018, the Project was awarded nine percent Low Income Housing Tax Credits (LIHTC).

The proposed rehabilitation of the Project will be an extensive renovation of the development. Interior improvements will include new flooring, unit kitchenettes, unit entry doors, LED lighting, paint, furnishings, and common area mechanical equipment. Ceilings will be replaced in hallways and new office areas. Common kitchens will receive new cabinets and appliances, and common bathrooms and shower rooms will receive new fixtures, accessories, and wall/floor finishes. Existing boilers, two of the four existing water heaters and plumbing fixtures will be replaced. Hallways and stairs will be upgraded with code-compliant guardrails and handrails. The unfinished basement will be converted into a 1,400 square foot recreation room, including a resident lounge and bicycle storage room. Three new offices will be added to the basement to accommodate an on-site resident services coordinator. The passenger elevator will be modernized and a new elevator will be installed between the basement and first floor, making the basement fully accessible. A new interior CCTV camera system will be installed.

Exterior improvements will include a new entry, photovoltaic power generation system, energy efficient windows, and new thermoplastic polyolefin (TPO) cool roofing. An existing lightwell will be

converted into an interior courtyard featuring a garden area, community seating, and simulated daylight to augment natural light.

The property will continue to be occupied during the planned rehabilitation period. Tenants will be temporarily relocated to an off-site location on a rotating basis until work is complete. Temporary off-site relocation is expected to last 34-49 days for tenants living on the first, second or third floor. Due to elevator modernization, tenants living on the fourth, fifth and sixth floors will need to be temporarily relocated from the site for up to 105 days.

Land Sale

The Redevelopment Agency of the City of Sacramento originally owned the land and, in 1994, entered into a ground lease with the current owners, Shasta Hotel Investors Partnership (SHIP) for \$6,000 annually. The land was transferred to the Housing Authority after the dissolution of Redevelopment. Lease payments were due annually based on the availability of cash flow. Based on a review of audited annual financial statements, the Project has not generated sufficient income to make payments on the ground lease. Per prior approvals for the Project, the existing ground lease is being released and all outstanding lease payments forgiven. Staff is proposing to transfer the land beneath the Shasta Hotel to the SHHA at the fair market value of \$550,000. The terms of the land transfer agreement include seller carryback financing at zero percent interest, deferred payments, and a 55-year term.

Developer: The limited partnership, Shasta Hotel Housing Associates, L.P., will rehabilitate the Shasta Hotel. John Stewart Company (JSC), as the administrative general partner of the limited partnership, is an experienced affordable rental housing developer and has partnered with the Agency on a number of projects. JSC has developed over 5,000 units of housing throughout California, the majority of which are affordable. The company has extensive experience in financing projects with tax credits, tax-exempt bonds, and other public and private funding sources.

Shasta Hotel Corporation (SHC) will serve as the general partner of the limited partnership. SHC is a nonprofit corporation formed in 1993 by the Agency to facilitate the initial acquisition and rehabilitation of the Project. The Board members include a non-profit representative, two affordable housing developers, and two Agency staff members.

Property Management: The Project will continue to be managed by the current property manager, JSC, a firm with over 35 years of experience operating affordable apartment communities. Agency staff has reviewed and approved the management plan, including daily operations, leasing procedures, maintenance, and eviction procedures, to ensure the company meets Agency requirements for property management.

Resident Services: Resident services will be provided by LifeSTEPS, Inc. (LifeSTEPS), which

currently provides resident services to 250 affordable housing communities and more than 80,000 residents in California. LifeSTEPS will be required to provide at least 15 hours of services per week. Programs will be tailored to resident needs. Agency staff has reviewed and approved LifeSTEPS' resident services plan detailing the scope and schedule of services to be provided. Services will be provided by an on-site services coordinator and will include social services and enrichment programs.

Project Financing: The Project's anticipated financing will include a combination of nine percent LIHTCs, an existing California Department of Housing and Community Development (HCD) loan, an Affordable Housing Program (AHP) loan, a seller carryback land acquisition loan, and an Agency loan of \$4.2 million consisting of Housing Successor funds. The Housing Successor funds are primarily comprised of low-moderate housing funds generated by the former Downtown Redevelopment Area.

Project costs have increased by approximately \$5 million since financing approvals in February 2017. Cost increases are primarily due to prevailing wages, two years of construction cost escalation, and an increase in construction contingency. The increased costs allowed the project to leverage additional tax credit equity to pay for the increases.

Low-Income Set-Aside Requirements: As a condition of receiving tax credits, federal law requires that units be set aside for targeted income groups. Income restrictions from LIHTC financing require household incomes at or below 80 percent of Area Median Income (AMI). The Agency further requires that 20 percent of the units be restricted to households with income at or below 59 percent of AMI. Project affordability restrictions will be specified in regulatory agreements with Developer. The approved sources and their affordability requirements are summarized in the following table:

| Unit Type | % of Units | Affordability Restrictions | Units | Regulatory Requirements |
|--|------------|----------------------------|-------|-------------------------|
| Low Income Housing Tax Credits, HCD, and Agency loan | 23% | Extremely Low (30% AMI) | 18 | 55 years |
| Low Income Housing Tax Credits, HCD, and Agency loan | 18% | Very Low (35% AMI) | 15 | 55 years |
| Low Income Housing Tax Credits, HCD, and Agency loan | 58% | Very Low (40% AMI) | 45 | 55 years |
| Manager's Unit | 1% | Unrestricted | 1 | |
| Total | 100% | | 79 | |

A vicinity map is included as Attachment 2. A project summary, including a proposed sources and uses of funds, is included in Attachment 3. A project cash flow proforma is included in Attachment 4, and a schedule of maximum rents is included in Attachment 5.

Policy Considerations: The recommended actions are consistent with a) the Agency's previously approved Multifamily Lending and Mortgage Revenue Bond Policies, priority 2. Recapitalization (Resolution No. 2009-148); there is one exception regarding the underwriting vacancy rate. The Shasta Hotel was underwritten with a vacancy rate of 10%, as is appropriate for a SRO project of this type; b) the 2013-2021 Housing Element, which encourages the provision of a variety of quality housing types to encourage neighborhood stability, including options for extremely low-income households (Resolution No. 2013-415); 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); and d) 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).

Economic Impacts: This multifamily residential project is expected to create 115.49 total jobs (65.44 direct jobs and 50.05 jobs through indirect and induced activities) and create \$9,624,345 in total economic output (\$5,866,638 of direct output and another \$3,757,707 of output through indirect and induced activities). *The indicated economic impacts are estimates calculated using a 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 may 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 proposed actions are considered an administrative and fiscal activity, and are not considered a project pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15378. Environmental review for physical project activities has been conducted and the project was found to be categorically exempt under CEQA pursuant to CEQA Guidelines at 14 California Code of Regulations (CCR) §15301, "Existing Facilities".

National Environmental Policy Act (NEPA): The proposed actions do not constitute a federal action and therefore do not require environmental review pursuant to the National Environmental Policy Act (NEPA). The Shasta Hotel has previously been awarded project-based vouchers which required an environmental review pursuant to NEPA and HUD's environmental review procedures at 24 CFR Part 58. The award of project-based vouchers to the Shasta Hotel was found to be Categorically Excluded pursuant to 24 CFR 58.35(a)(5).

Sustainability: The Project has been reviewed for consistency with the goals, policies, and targets of the 2035 General Plan. If approved, the project will advance the following goals,

policies, and targets that will directly or indirectly conserve energy resources and reduce greenhouse gas emissions, in part, from 2035 General Plan: Housing Element - Strategies and Policies for Conserving Energy Resources - Climate Action Plan, subsection 7.2: The Sacramento Climate Action Plan (CAP) outlines measures to improve energy efficiency in existing buildings.

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

Financial Considerations: Staff recommends funding of an Agency loan comprised of \$4,200,000 of Housing Successor funds and a seller carryback land acquisition loan of \$550,000. The Agency will be collecting the annual monitoring fee as a capitalized reserve equal to 0.15 percent of the new Housing Successor funds loan amount, consistent with the Agency's multifamily lending guidelines.

LBE/M/WBE/Section 3 Requirements: Minority and Women's Business Enterprise Requirements will be applied to all activities to the extent required by federal funding and Section 3 requirements will be applied to the extent applicable. LBE requirements do not apply to this project.