

# City of Sacramento

## Legislation Text

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File #: 2019-01772, Version: 1

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**Title:**

**(City Council / Housing Authority) Approval of the Single Room Occupancy (SRO) Residential Hotel Withdrawal, Conversion Certificate and Replacement Housing Plan, Predevelopment and Permanent Loan Documents, and Loan Commitment for the Capitol Park Hotel Project (Noticed on 01/22/2020) [Published for 10-Day Review 01/30/2020]**

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**Location:** 1117, 1121, 1125, 1127, 1129 and 1131 9<sup>th</sup> Street; District 4

**Recommendation:**

Conduct a public hearing and upon conclusion, adopt: 1) a City Council Resolution approving the SRO Withdrawal, Conversion Certificate and Replacement Housing Plan for Capitol Park Hotel; 2) a Housing Authority Resolution: a) amending the Housing Authority budget and the allocation of up to \$3,200,000 in Housing Authority Successor Agency (HASA) Funds for the Capitol Park Hotel Project (Project); b) authorizing the Executive Director, or her designee, to execute the following related documents to the Project : i) Predevelopment Loan Documents comprised of \$1,500,000 in HASA Funds and a Loan Commitment comprised of \$1,700,000 in HASA Funds with Mercy Housing California or related entity; and ii) all necessary documents associated with this action; and c) making the related findings; and 3) a City Council Resolution which authorizes: a) amending the Agency budget and allocate up to \$1,700,000 in Community Development Block Grant (CDBG), \$800,000 in Housing Trust Funds (HTF), \$1,100,000 Housing Opportunities for Persons with AIDS (HOPWA) and \$2,300,000 in Mixed Income Housing Ordinance Funds (MIHO) for the Project; b) executing the Loan Commitment with Mercy Housing California, or related entity for \$5,900,000 comprised of CDBG, HTF, HOPWA and MIHO program funds; c) executing all necessary documents associated with this action; and d) making 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, Housing Finance Analyst II, (916) 440-1353, Sacramento Housing and Redevelopment Agency

**Attachments:**

- 01-Description/Analysis
- 02-Vicinity Map
- 03-Photograph of Project
- 04-Project Summary
- 05-Cashflow Proforma
- 06-Maximum Income and Rent Limits
- 07-Council Resolution - Conversion and Replacement Housing Plan
- 08-Exhibit A to Council Resolution - Conversion Certificate
- 09-Exhibit B to Council Resolution - Replacement Housing Plan for SRO Dwelling Units
- 10-Housing Authority Resolution - Predevelopment and Permanent Loan and Loan Commitment (HASA)
- 11-Exhibit A to Housing Authority Resolution - Predevelopment and Permanent Loan Documents (HASA)
- 12-Exhibit B to Council Resolution - Loan Commitment Letter (HASA)
- 13-Council Resolution - Loan Commitment (HTF, CDBG, HOPWA and MIHO)
- 14-Exhibit A to Council Resolution - Loan Commitment Letter (HTF, CDBG, HOPWA and MIHO)

## Description/Analysis

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

### Prior Approvals

On April 23, 2019, Council approved the Homeless Services Funding Plan, which included \$10,160,000 in Measure U funds to operate a temporary homeless shelter at the Property. Council also approved the funding of \$112,500 for a lease between the City and Mercy Housing, and \$13,370,000 in Innovation and Growth Program funds for the acquisition of the Property and relocation costs associated with the existing residents of Capitol Park Hotel.

On April 30, 2019, Council approved the two loan agreements and associated documents related to the Property. One agreement is between the City and Sacramento Housing and Redevelopment Agency (Agency), and the second agreement is between the Agency and Mercy Housing which provided \$13,370,000 in Innovation and Growth Program funds to finance the acquisition of the Property and costs associated with relocating the existing residents of Capitol Park Hotel. It is anticipated that in November of 2020 these funds will be returned to the City.

### Project Description

The Capitol Park Hotel Project is the proposed rehabilitation of a historic 180-unit single room occupancy building into 134 studios, affordable, permanent supportive and workforce housing units that include kitchenettes and full bathrooms. Amenities will include a 24/7 desk clerk, community room, and meeting areas for individual and group settings. Bicycle parking will be available onsite. Vicinity map and a project photograph are included as Attachments 2 and 3. Further details of the Project are attached to the Council and Housing Authority resolutions for the loan commitment and scope of development as Exhibit A.

#### Project Based Vouchers and No Place Like Home

In 2018, the Agency awarded 134 Project Based Vouchers (PBV) to house 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 also be designated as NPLH units. Of the 65 NPLH units, 40 percent will be allocated to the category of chronically homeless, and 30 percent each to categories of homeless and at risk of chronic homelessness.

Developer: Mercy Housing California, or related entity, will serve as the Developer. Mercy Housing is a nonprofit public benefit corporation dedicated to providing quality affordable housing with supportive programs to low-income individuals in California. The Developer 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 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 Agency 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 the Agency.

In addition to DHS on-site supportive services, a case management team will dedicate 2.8 Full-Time Equivalent (FTE) case managers to provide services needed by the remaining 69 PBV homeless residents not served by NPLH. Mercy Housing California will provide the Agency and DHS with the

case management team qualifications and supportive services plan for Agency and DHS staff review and approval prior to returning for final approval of the loan documents.

Resident Services: Resident services will be provided by Mercy Housing California. A minimum of 20 hours per week of on-site services will be available to all residents. Resident services will include education and enrichment programs and transportation assistance (e.g., light rail/bus passes). An on-site coordinator will be assigned to the property. Agency 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 Agency requirements.

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

Project Financing: The Developer applied for a \$1,500,000 predevelopment and permanent loan and for a \$7,600,000 construction and permanent gap financing loan from the Agency in the first competitive funding round in January 2020. The financing structure of the proposed Capitol Park Hotel development includes competitive nine percent Low Income Housing Tax Credits (LIHTC), competitive state tax credits, historic tax credits, competitive NPLH loan, non-competitive NPLH loan, and an Agency loan comprised of CDBG, HTF, HOPWA, HASA and MIHO program funds. A summary of the Agency financing is provided in the below chart:

<b>Agency Funding Source</b>	<b>Amount</b>
<b>Capitol Park Hotel Predevelopment and Permanent Loan:</b>	
Housing Authority Successor Agency (HASA) Funds	\$1,500,000
<b>SUB-TOTAL</b>	<b>\$1,500,000</b>
<b>Capitol Park Hotel Construction and Permanent Loan:</b>	
Community Development Block Grant (CDBG) Affordable Housing Rehabilitation Program fund	\$1,700,000
Housing Authority Successor Agency (HASA) Funds	\$1,700,000
Housing Trust Funds (HTF)	\$ 800,000
Housing Opportunities for Persons with AIDS (HOPWA) Multi-Family Housing Acquisition and Construction fund	\$1,100,000
Mixed Income Housing Ordinance Fund (MIHO)	\$2,300,000
<b>SUB-TOTAL</b>	<b>\$7,600,000</b>
<b>TOTAL AGENCY LOAN</b>	<b>\$9,100,000</b>

In addition, the Agency has committed a total of 134 PBV to this Project. Project Based Vouchers are

awarded in accordance with the Agency’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). Funding sources and uses and cash flow for Capitol Park Hotel are included in Attachments 4 and 5. If Capitol Park Hotel is successfully awarded tax credits in 2020, construction would be complete within two years after all financing is secured.

**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). The Agency further requires that 20 percent of the units be restricted to households with incomes no greater than 50 percent AMI. The affordability restrictions will be specified in regulatory agreements with the Developer. A schedule of maximum income and rents are included as Attachment 6. The anticipated funding sources and their affordability requirements are summarized in the tables below for each phase of the development:

Unit Type	Units	% of Units	Affordability Restriction <sup>1</sup>
9% LIHTC, State and Historic Tax Credits, NPLH and PBV	65	49%	Extremely Low Income 20% of Area Median Income (AMI)
9% LIHTC, State and Historic Tax Credits, CDBG, HTF, HOPWA, HASA, MIHO and PBV	69	51%	Very Low Income 40% of AMI
<b>Total</b>	<b>134</b>	<b>100%</b>	

<sup>1</sup>Pursuant 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) the Agency’s previously approved Multifamily Lending and Mortgage Revenue Bond Policies, 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 the Sacramento Housing and Redevelopment Agency; 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).

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 Housing Authority 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 Agency for a period of 55 years. Regulatory restrictions on the property will be specified in CDBG and HOPWA regulatory agreements between the Developer and the Agency for a period of 15 years. 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. Compliance with the regulatory agreement will be monitored by the Agency on an annual basis during the 55-year regulatory period.

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 item was published for 10-day review on January 30, 2020 as required.

**Economic Impacts:** The Capitol Park Hotel multifamily residential project is expected to create 357.62 total jobs (202.65 direct jobs and 154.97 jobs through indirect and induced activities) and create \$29,801,825 in total economic output (\$18,166,069 of direct output and another \$11,635,756

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 \$1,000,000 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):** This project has been reviewed pursuant to the California Environmental Quality Act (CEQA) and has been found to be categorically exempt under CEQA pursuant to CEQA Guidelines §15301 and 15302.

**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 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, 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 Action:** On February 5, 2020, it is anticipated that the Sacramento Housing and Redevelopment Commission will approve the staff recommendation for this item. Staff will notify Council in the event this does not occur.

**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 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:** In the 2020 Action Plan, CDBG funds were allocated to the Affordable Housing Rehabilitation Program fund (Resolution 2019-0408); \$1,700,000 is recommended to be

allocated to the Project which includes 2019 CDBG program income and 2020 CDBG entitlement. In the 2018, 2019 and 2020 Action Plans HOPWA funds were allocated to the Multi-Family Housing Acquisition and Construction fund in the (City Resolutions 2017-0410, 2018-0429 and 2019-0480); \$1,100,000 is recommended to be allocated to the Project which includes 2018, 2019 and 2020 HOPWA entitlement. Additional funds include \$3.2 million in Housing Authority Successor Agency Funds, \$800,000 in Housing Trust Funds, and \$2.3 million in Mixed Income Housing Funds.

The Agency will receive an annual administration fee (Fee) equal to 12.5 basis points (0.125%) of the original loan amount as compensation for monitoring compliance with regulatory restrictions and the administration of each loan. The Agency will receive, in advance, a prorated semi-annual installment at loan closing and equal semi-annual installments following the effective date of the regulatory agreement during the term of the regulatory period for each loan. The Agency will also receive a fee equal to \$100 per each Agency-funded unit per year (65 assisted units). The Fee for the predevelopment and permanent loan will be \$2,975. The Fee for the construction and permanent loan will be \$14,900.

**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. Local Business Enterprise requirements do not apply to this report.