

# City of Sacramento

## Legislation Text

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File #: 2021-00086, Version: 1

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**Title:**

**(City Council / Housing Authority) Central City (Rental Assistance Demonstration 2) Tax Equity and Fiscal Responsibility Act Hearing, and Approval of Tax-Exempt Bonds, Option Agreement and Loan Commitment (Noticed 04/06/2021) [Published for 10-Day Review 04/08/2021]**

File ID: 2021-00086

**Location:** 1820 Capitol Avenue and 626 I Street; District 4

**Recommendation:**

Conduct a public hearing and upon conclusion, adopt: 1) a City Council Resolution indicating the Housing Authority has conducted a Tax Equity and Fiscal Responsibility Act (TEFRA) public hearing related to the proposed acquisition, rehabilitation and development of the Rental Assistance Demonstration 2 (RAD 2) project; 2) a Housing Authority Resolution authorizing: a) the intention of the Housing Authority to issue up to \$40,000,000 in tax exempt mortgage revenue bonds to finance the acquisition, rehabilitation and development of the project, and b) the Housing Authority to submit an application to the California Debt Limit Allocation Committee (CDLAC) for allocation authority to issue bonds; and 3) a Housing Authority Resolution authorizing the Housing Authority of the City of Sacramento to: a) amend the Housing Authority budget, b) approve an Option Agreement for the Ground Lease and the Purchase and Sale of Improvements (Option Agreement) for the project, c) approve the Conditional Funding Commitment comprised of a seller carryback loan, a ground lease loan, and a cash proceeds note (Loan Commitment), d) execute any related documents with Sacramento Housing Authority Repositioning Program, Inc., (SHARP), or related entity, and e) make related findings.

**Contact:** Christine Weichert, Director, (916) 440-1353, Sacramento Housing and Redevelopment Agency; Tyrone Roderick Williams, Deputy Executive Director, (916) 440-1316, Sacramento Housing and Redevelopment Agency

**Presenter:** Cylus Scarbrough, Housing Finance Analyst, (916) 440-1353, Sacramento Housing and Redevelopment Agency

**Attachments:**

01-Description/Analysis and Background

02-City Council Resolution - TEFRA

03-Housing Authority Resolution - Inducement

04-Housing Authority Resolution - Option Agreement and Loan Commitment

- 05-Exhibit A - Option Agreement for the Ground Lease and the Purchase and Sale of Improvements for Capitol Terrace and Edge Water
- 06-Exhibit B - Loan Commitment for Capitol Terrace and Edge Water
- 07-Vicinity Map of Edge Water (626 I Street)
- 08-Vicinity Map of Capitol Terrace (1820 Capitol Terrace)
- 09-Pictures of Edge Water and Capitol Terrace
- 10-Project Summary - Central City Combined
- 11-Project Summary - Edge Water
- 12-Project Summary - Capitol Terrace
- 13-Cash Flow Proforma
- 14-Maximum Income and Rent Limits

## Description/Analysis

**Issue Detail:** The Housing Authority of the City of Sacramento continues to transition its public housing portfolio to the Rental Assistance Demonstration (RAD) program with the conversion of the Edge Water and Capitol Terrace buildings in downtown Sacramento. The conversion of the units to RAD will convert them from public housing units to the multifamily bond and low income housing tax credit (LIHTC) program with project based vouchers. The Housing Authority will continue to provide on-site management of the units.

On October 30, 2018, the Housing Authority Board (Board) of the City of Sacramento (City) 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 RAD and Section 18 Demolition and Disposition Programs. The Board also 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. On January 3, 2020, HUD approved the application to reposition and convert 83 units at Capitol Terrace (1820 Capitol Avenue), and 107 units at Edge Water (626 I Street) to Project Based Voucher (PBV) units.

The Guiding Principles of the Asset Repositioning Plan, adopted as the policy direction for each reposition activity, are to prevent the loss of units for extremely low income households, facilitate a decrease in reliance on federal funds, incorporate smart growth principles into development opportunities, reinvest any 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 to convert public housing units to long-term, PBV rental assistance developments. Converting the properties under RAD facilitates access to private debt and equity to address immediate and long-term capital needs.

The developer, Sacramento Housing Authority Repositioning Program, Inc., is currently completing the first phase of the RAD project (RAD 1), which was approved by the City and County in January 2020. RAD Phase 1 consists of six scattered sites including the Pointe Lagoon Apartments (two sites in the County and one in the City of Elk Grove), Rio Garden Apartments in the County, Oak Park Apartments in the City of Sacramento, and Meadow Commons in the City of Sacramento.

Staff is requesting approval to enter into an Option Agreement with SHARP for a Ground Lease and the Purchase and Sale of Improvements (Option Agreement) in an amount to be justified by a fair market value appraisal. This report is also recommending approval to allocate funding to SHARP for acquisition, rehabilitation and permanent financing for the two Project properties. This funding is proposed to be in the form of a \$14,111,200 seller carryback loan for the building improvements, a \$6,820,000 ground lease loan, and a \$4,217,700 cash proceeds note for the sale of improvements. In addition, the report also recommends approving the applicant's request for Mortgage Revenue Tax Exempt Bond financing for the Project.

Vicinity maps for Edge Water and Capitol Terrace are included as Attachments 7 and 8, and pictures of the two buildings are included as Attachment 9.

### **Capitol Terrace Site**

The Capitol Terrace site is a nine-story multifamily building built in 1971 and located at 1820 Capitol Avenue near downtown Sacramento on a .44-acre site. It is an age-restricted building for seniors consisting of 84 one-bedroom units. The renovation work will address interior improvements of the units such as new refrigerators, ranges, cabinets, countertops and sinks in the kitchens and bathrooms, and all units will have new bathtub enclosures and toilets. Other improvements to the buildings will include new flooring, repair or replacement of mechanical systems, installation of rooftop thermal solar system, replacing windows and exterior finishes, ADA upgrades, weather proofing, and site work.

### **Edge Water Site**

The Edge Water site is a 14-story mixed-use building built in 1973 and located at 626 I Street in downtown Sacramento on a .59-acre site. It is an age-restricted building for seniors consisting of 108 one-bedroom units. The first three floors consist of rentable office space, while floors four through twelve are residential with 108 one-bedroom units. All of the units at Edge Water will have new flooring and new air conditioning units, but no other modifications to the interior are proposed at this time as the interiors were upgraded in the last ten years. A new security surveillance camera system will be installed on the property. The scope of development for Capitol Terrace and Edge Water are included with the Loan Commitment in Attachment 6.

**Developer:** The Sacramento Housing Authority Repositioning Program, Inc., is a nonprofit public benefit corporation created by the Housing Authority in 2009 to implement the Housing Authority's

**Asset Repositioning Plan.** Activities undertaken by SHARP include acquiring, developing, financing, rehabilitating, owning and operating affordable housing to maintain and preserve these affordable units. SHARP has partnered with BRIDGE Housing to rehabilitate three other Housing Authority properties, including Sutterview, Washington Plaza and Sierra Vista Apartments. SHARP is currently rehabilitating the six properties in the first phase of the Rental Assistance Demonstration project.

**Property Management:** Housing Authority staff currently manages over 3,000 housing units throughout the City and County of Sacramento, which includes the Capitol Terrace and Edge Water properties. It is proposed that Housing Authority staff will continue to manage the units after conversion to RAD.

**Resident Services:** LifeSTEPS will provide resident services, with 15 hours per week at Capitol Terrace, and 20 hours per week at Edge Water.

**Security Plan:** The security plan includes installation of upgraded exterior lighting and surveillance camera equipment at each building.

**Project Financing:** The proposed financing of the Project includes tax exempt bonds, a conventional loan, a Housing Authority seller carryback loan, a Housing Authority ground lease loan, a Housing Authority cash proceeds note, a deferred developer fee and RAD Program specific Project Based Vouchers.

**Low-Income Set-Aside Requirements:** As a condition of receiving LIHTC and the benefits of tax-exempt bond financing, federal law requires some units to be set aside for targeted income groups. Income restrictions from LIHTC financing require that 20 percent of the units have rents that are affordable to households with income at or below 50 percent of Area Median Income.

The affordability restrictions will be specified in regulatory agreements between the Agency and the Developer. The Project Summaries are included as Attachments 10-12, and the Cash Flow Proforma is included as Attachment 13. A schedule of maximum income and rents are included as Attachment 14. The anticipated funding sources and their affordability requirements are summarized in the table below for the development:

**Central City (RAD 2)**

Unit Type	Units	% of Units	Affordability Restriction (55 years)
Tax-exempt Bonds, Housing Authority Funds and Project Based Vouchers	39	20%	Low Income 50% of Area Median Income
Tax-exempt Bonds, Housing Authority Funds and Project Based Vouchers	151	79%	Low Income 60% of Area Median Income
Management Units	2	1%	

Total	192	100%	
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**Policy Considerations:** The recommended actions for the Project are consistent with:

a) United States Department of Housing and Urban Development guidelines to reposition and convert County Public Housing Properties under the Rental Assistance Demonstration 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 Agency's Multifamily Lending and Mortgage Revenue Bond Policies.

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 of the Project will be specified in the bond regulatory agreement between the Developer and the Housing Authority for a period of 55 years. Compliance with the regulatory agreement will be monitored by the Agency on an annual basis.

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 April 8, 2021 as required.

**Economic Impacts:** The Project is expected to create 251 total jobs (142 direct jobs and 109 jobs through indirect and induced activities) and create \$20,925,272 in total economic output (\$12,722,257 of direct output and another \$8,170,015 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 above properties has 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 has been found to be Categorically Excluded under NEPA pursuant to 24 CFR 58.35(a)(3)(ii) and (5), and converts to exempt pursuant to 24 CFR 58.34(a)(12).

**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, 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:** *Sacramento Housing and Redevelopment Commission:* At its meeting on April 7, 2021, the Sacramento Housing and Redevelopment Commission reviewed the staff recommendation for this item. The votes were as follows:

AYES:

NOES:

ABSENT:

**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 United States Department of Housing and Urban Development guidelines related to the repositioning and conversion of City Public Housing Properties under the Rental Assistance Demonstration 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 Agency will receive a one-time issuance fee of 0.25 percent of the bond amount, which is payable at bond closing, and annual payment for monitoring the regulatory restrictions and administration of the bonds, in the amount of 0.125 percent of the bond amount but not to exceed \$25,000 for the term of 55 years. The Developer will be responsible for payment of all costs, fees, and deposits relating to the bond application. Mortgage revenue bonds do not represent a financial obligation of the Agency, Housing Authority, or City of Sacramento.

**Local Business Enterprise (LBE)/Minority and Women's Business Enterprise (MBE/WBE):** Minority and Women's Business Enterprise requirements will be applied to all activities to the extent required by federal funding to maintain that federal funding. Section 3 requirements will be applied to the extent applicable. Local Business Enterprise requirements do not apply to this report.

