

**Staff Report  
Sunset Lane Apartments  
Legistar Item 12-0045  
March 6, 2012**

The Public Housing Authority and County continue to support affordable housing developments through the goals, policies and measures identified in the Housing Element of the General plan, the TIM Fee Offset program and the fee deferral program.

On February 24, 2012, the County received a copy of the appraisal for the Sunset Lane Apartments. The “as proposed” appraised value is \$1,050,000 assuming restricted rents, and \$3,200,000 assuming market value rents. The “as-is” value of the undeveloped property is \$450,000.

Although the HHSA previously recommended the loans be approved by the Board of Supervisors, due to the low “as proposed” appraisal, the resulting high loan-to-value ratio, and the potential financial liability to the County’s General Fund, the HHSA is recommending that the CalHFA HELP, HOME and CDBG loans not be approved by the Board at this time under the current funding structure.

**Funding Structure**

The total construction cost for the Sunset Lane Apartments is estimated at \$12,828,911. CalHFA HELP, HOME and CDBG construction loans that would be issued through the Public Housing Authority and the County total \$4,883,000.<sup>1</sup> These loans would be subordinate to the construction financing from Citibank estimated at \$5,645,091.

Once construction is complete and permanent financing obtained, the loans outstanding to the County would be \$3,483,000 (HOME and CDBG) plus \$540,800 for MHSA. These loans would be subordinate to the permanent financing from Citibank estimated at \$542,200.

During construction, the total loan-to-value is 2695%<sup>2</sup> (including the Citibank loan and TIM Fee Offset) using the “as-is land (site)” appraised value of \$450,000. After construction, the total loan-to-value is 536%<sup>3</sup> (including the Citibank loan and TIM Fee Offset) using the “as proposed” appraised value of \$1,050,000.

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<sup>1</sup> An additional \$100,000 CalHFA HELP loan for pre-development costs was executed previously between Mercy Housing California and the Public Housing Authority on December 29, 2009; the loan repayment is due no later than December 29, 2014.

<sup>2</sup> Total loans and TIM Fee Offset of \$12,128,911 with \$700,000 in investor equity.

<sup>3</sup> Total loans and TIM Fee Offset of \$5,626,020 with \$7,820,000 in investor equity.

| Funding Source                        | Construction Financing |                          | Permanent Financing |                          |
|---------------------------------------|------------------------|--------------------------|---------------------|--------------------------|
|                                       | Lien Order             | Amount<br>(est. 2/12/12) | Lien Order          | Amount<br>(est. 2/12/12) |
| Citibank                              | 1                      | \$5,645,091              | 1                   | \$542,200                |
| Public Housing Authority: CalHFA HELP | 2                      | \$1,400,000              | --                  | --                       |
| El Dorado County: HOME                | 3                      | \$3,000,000              | 2                   | \$3,000,000              |
| El Dorado County: MHSA via CalHFA     | 4                      | \$540,800                | 3                   | \$540,800                |
| El Dorado County: CDBG                | 5                      | \$483,000                | 4                   | \$483,000                |
| El Dorado County: TIM Fee Offset      | 6                      | \$1,060,020              | 5                   | \$1,060,020              |
| Investor Contribution                 | no lien                | \$700,000                | no lien             | \$7,820,000              |
| Total                                 |                        | \$12,828,911             |                     | \$13,558,711             |

On March 1, 2012, the County received a letter from Mercy Housing California in which Mercy Housing Inc., the national parent organization to Mercy Housing California, has offered to guarantee the HOME and CDBG loans for the period of affordability required under the County's standard agreements for those funding sources with the State. The CalHFA HELP loan is already recourse to Mercy Housing California 55, the developer of Sunset Lane Apartments. A copy of the letter is attached to this Board item.

### **Sunset Lane Apartments - Background**

**The Development:** Affordable housing developer Mercy Housing California (Mercy) is proposing the new construction of a 40-unit workforce affordable housing apartment complex at the corner of Sunset Lane and Becken Lane in the community of Shingle Springs. The project is known as Sunset Lane Apartments. The Sunset Lane Apartments will be developed by Mercy Housing California 55 (MHC 55), a California Limited Partnership, whose general partner Sunset Lane Apartments LLC, with its sole member Mercy Housing Calwest organized under Section 501(c)(3) of the Internal Revenue Code. The units at Sunset Lane Apartments will be a mix of one, two and three-bedroom apartments affordable to a range of household sizes with incomes ranging from 30 to 50 percent of the Area Median Income and will include five apartments for Mental Health Services Act (MHSA) eligible individuals who will receive supportive services that will enable them to live more independently. Total project costs are estimated at approximately \$13.5 million.

**Funding Background:** After conceptual approval on April 6, 2010 (Agenda Item 15, Legistar File # 10-0293), and a Public Hearing on June 15, 2010 (Agenda Item 19, Legistar File # 10-0595), the Board of Supervisors authorized submittal of a CDBG General Allocation Application to the California Department of Housing and Community Development (HCD). Included in the application was a request for funding for "Public Improvements in Support of Housing New Construction" (PIHNC) on behalf of Mercy for the Sunset Lane Apartments. The project was selected for up to \$483,000 in PIHNC funding. The CDBG funds are to be loaned to MHC 55 for the Sunset Lane infrastructure project as a deferred payment loan at 3 percent interest, subject to a Regulatory Agreement, evidenced by a Promissory Note and secured by Deed of Trust

With Assignment of Rents and Security Agreement (Deed of Trust). Pursuant to the requirements of the State, the loan repayment may be satisfied by the project maintaining a 55-year period of affordability for low- to very-low income households. These CDBG funds were awarded specifically for the Sunset Lane Apartments project and cannot be transferred to any other affordable housing development. If Mercy does not utilize these CDBG funds for the Sunset Lane Apartments, they will be disencumbered by the State. Prior to the release of CDBG funds, HCD, the State department responsible for administering the CDBG program in California, requires certain conditions be met by March 13, 2013. The Health and Human Services Agency (HHS) is working with HCD to meet the project deadlines.

After conceptual approval on July 20, 2010 (Agenda Item 16, Legistar File # 10-0756), and a Public Hearing on August 24, 2010 (Agenda Item 3, Legistar File # 10-0851), the Board authorized submittal of a HOME Rental Project Allocation Application on behalf of Mercy Housing. The project was selected for up to \$3,000,000 in loan funding for the construction of the Sunset Lane Apartments. The HOME grant funds are to be loaned to MHC 55 for the Sunset Lane project as a deferred payment 55-year loan at 3 percent interest, subject to a Regulatory Agreement, evidenced by a Promissory Note and secured by Deed of Trust. These HOME funds were awarded specifically for the Sunset Lane Apartments and cannot be transferred to any other affordable housing development. If Mercy does not utilize these HOME funds for the Sunset Lane Apartments, they will be disencumbered by the State. Prior to the release of HOME funds, HCD, the State department responsible for administering the HOME program in California, requires 60 days for approval of loan documents and other setup conditions. However, the HHS is working with HCD to meet the project deadlines.

Under the funding structure for the Sunset Lane Apartments, the HOME Deed of Trust for \$3,000,000 will be in third position and the CDBG Deed of Trust for \$483,000 will be in fifth position. Additional funding administered by the County or the El Dorado County Public Housing Authority (EDCPHA) for the Sunset Lane Apartments project includes: up to \$1,400,000 from California Housing Finance Authority (CalHFA) funds (3.5 percent interest for five years); up to \$1,037,240 from MHSA funds (\$540,800 for construction and \$496,440 for supportive services); and up to \$1,060,020 in TIM Fee Offsets (requires a 20 year period of affordability). The anticipated lien positions of the construction phase funding for the Sunset Lane Apartments is: 1) construction loan, 2) CalHFA, 3) HOME, 4) MHSA, 5) CDBG and 6) TIM Fee Offset. As identified in the application for HOME funding, the purchase price of the property is \$500,000.

In the event that MHC 55 were to default on the CDBG or HOME loans, the State would seek repayment of the loan from the County. The County would in turn be responsible for seeking repayment from MHC 55. Two previous loans to Mercy from the County have been repaid by Mercy earlier than required. In April 2002, the County issued a pre-development loan to Mercy in the sum of \$150,000, which Mercy repaid in full, plus interest, in 2005. In November 2002, the County made a 10-year, \$1,800,000 CalHFA loan to Mercy for the White Rock Village project. Mercy repaid the loan in full, plus interest, in five years. Additionally, Mercy has complied with the other terms of its

current loan agreements with the EDCPHA and/or the County (e.g., project monitoring, reporting).

The CDBG and HOME loan documents have been approved by County Counsel. However, all lenders and the equity investor associated with the Sunset Lane project have the opportunity to review the loan documentation of all other lenders. As such, it is possible that the County may receive comments about its loan documents prior to close of escrow on the property and execution of the loan documents. Resulting changes to the loan documents will be provided to County Counsel for review and approval prior to execution.

The California Tax Credit Allocation Committee requires commencement of construction by March 26, 2012.

***Mercy Housing California:*** Mercy is an affordable housing developer with an established track record within El Dorado County. They are a nationally-recognized non-profit housing organization with developments throughout California and in 17 other states, including 26 rental properties in the Sacramento Valley, Sierra and foothill regions, of which three are located in El Dorado County: Diamond Sunrise Apartments Phases I and II in Diamond Springs, White Rock Village Apartments in El Dorado Hills, and Tahoe Valley Apartments in South Lake Tahoe. Mercy is well-connected to various community and government agencies through its operation of these developments. HHSA (including its predecessor departments of the Community Services Department and the Department of Human Services), along with the EDCPHA, have worked with Mercy on the current affordable housing project and the two previous affordable housing developments in the unincorporated areas of the County.

A list of recent development awards received by Mercy is attached. Additionally, on July 21, 2009, the Board of Supervisors recognized Mercy for its efforts in providing long-term solutions to meeting the County of El Dorado's affordable and workforce housing shortage and endorsed Mercy when applying for related funding programs under the Housing and Economic Recovery Act of 2008 (HERA) and the American Recovery and Reinvestment Act of 2009 (ARRA) that support future projects within the County.

## **Affordable Housing**

Supporting affordable housing assists the County in meeting General Plan 2008 Housing Element goals. The following Housing Element goal and policies are relevant to the Sunset Lane Apartments project:

- Goal HO-1: To provide for housing that meets the needs of existing and future residents in all income categories.

- Policy HO-1.6: The County will encourage new or substantially rehabilitated discretionary residential developments to provide for housing that is affordable to low very low, and moderate income households.
- Policy HO-1.10: The County shall apply for funds from the State and federal government such as the Community Development Block Grant (CDBG), Home Investment Partnerships Program, and AB 2034 programs, and explore additional ways such funds may be used countywide to support construction of affordable housing.
- Policy HO-1.12: To the extent feasible, extremely low, very low, low, and moderate income housing produced through government subsidies, incentives, and/or regulatory programs shall be distributed throughout the county and shall not be concentrated in a particular area or community.
- Policy HO-1.18: The County shall develop incentive programs and partnerships to encourage private development of affordable housing.
- Policy HO-1.26: The County shall ensure that public services and facilities are provided to affordable housing projects at the same level as to market-rate housing. Incentives and/or subsidies shall be considered to support the production of housing for very low, low and moderate income households.

The County has supported the development of affordable housing projects through State and federal funding applications since 1998, initially through a HOME Investment Partnerships grant award approved for submittal on October 27, 1998, by Board of Supervisors Resolution #265-98. The grant award was applied for on behalf of Mercy for the Diamond Sunrise II affordable housing project. Through subsequent HOME grant awards and CalHFA loans, the County has continued to support the development of affordable housing in the unincorporated areas of El Dorado County. Diamond Sunrise II, completed in 2002, is located in Diamond Springs and provides 16 units of affordable senior housing. The White Rock Village Apartments project, located in El Dorado Hills, completed in 2005, provides 168 units of affordable workforce housing. The Sunset Lane Apartments project will provide 39 units of affordable housing (and one resident manager unit). All projects provide for a 55-year period of affordability.