



# JOINT MEETING AGENDA REPORT

Housing Authority & City of Richmond

Economic Development

<b>DATE:</b>	December 6, 2022
<b>TO:</b>	Housing Authority Board of Commissioners and Members of the City Council
<b>FROM:</b>	Shasa Curl, City Manager Nannette Beacham, Richmond Housing Authority (RHA) Executive Director Lina Velasco, Director of Community Development LaShonda White, Interim Director of Community Services Delmy Cuellar, Director of Finance Gabino Arredondo, Project Manager
<b>Subject:</b>	Residual Receipts Loan to Assist in Financing the Rehabilitation of Nevin Plaza Subject
<b>FINANCIAL IMPACT:</b>	The financial impact to the City will be the use of \$1.75 million of American Rescue Plan Act (ARPA) funds and \$1.75 million in Affordable Housing In Lieu Fee Housing Funds to provide a residual receipts loan to Nevin Plaza I, L.P.
<b>PREVIOUS COUNCIL ACTION:</b>	December 15, 2020
<b>STATEMENT OF THE ISSUE:</b>	RHA and the City have been informed by EAH Housing of a funding gap that impacts the successful completion of the Nevin Plaza I Rehabilitation Project. The rehabilitation and repositioning of Nevin Plaza is an implementing action of the Public Housing Authority Recovery and Sustainability (PHARS) agreement with the U.S. Department of Housing and Urban Development (HUD). RHA staff is recommending additional gap financing for the project to move forward with repositioning and complete needed improvements that

	will support the efforts to preserve and increase affordable housing in Richmond.
<b>RECOMMENDED ACTION:</b>	ADOPT a joint resolution authorizing the use of \$1.75 million of American Rescue Plan Act (ARPA) funds and \$1.75 million of Affordable Housing In Lieu Fee Funds to provide a residual receipts loan to Nevin Plaza I, L.P. to assist in financing the rehabilitation of Nevin Plaza; and AUTHORIZE the city manager or designee and Richmond Housing Authority (RHA) Executive Director to negotiate and execute loan documents – City Manager’s Office/Richmond Housing Authority (Shasa Curl 620-6512/Nannette J. Beacham 621-1300).

## **DISCUSSION:**

### Background

Richmond Housing Authority’s (RHA) purpose is to provide quality, safe, and sanitary housing for very low-income seniors and disabled individuals and families in the City of Richmond through the administration of the Low-Income Public Housing Program. Nevin Plaza, located at 2400 Nevin Avenue, is a 142-unit, seven-story building that houses seniors and disabled households. The property is currently owned and managed by RHA.

On December 4, 2018, the RHA Board of Commissioners directed staff to move forward with repositioning RHA’s public housing developments and other real estate holdings. This strategy supports the underlying goals of RHA to ensure no reduction in rental housing options for Richmond residents, and to maximize the benefit/utilization of the federal funds.

On February 25, 2020, the RHA Board of Commissioners designated EAH Housing (EAH) as the preferred developer for the redevelopment and operation of Nevin Plaza, which also includes the option to develop a 10,000 square foot vacant site adjacent to the Nevin Plaza parking lot for the new construction of affordable housing and authorized the Executive Director of RHA to negotiate an Exclusive Right to Negotiate (ERN) Agreement.

On June 30, 2020, the RHA Board of Commissioners adopted a resolution authorizing the Executive Director to execute an ERN agreement and authorized the Executive Director to negotiate the agreements necessary for the redevelopment and operation of Nevin Plaza with EAH.

On September 29, 2020, RHA Board of Commissioners approved the final Section 18

Disposition Application. The application was submitted to U.S. Department of Housing and Urban Development (HUD) in the first week of October 2020.

The City of Richmond Planning Division has completed an environmental assessment under the provisions of the National Environmental Policy Act and HUD regulations 24 CFR Part 58 for the project. The City has determined that the project will have no significant impact on the human environment. Therefore, an Environmental Impact Statement under the National Environmental Policy Act of 1969 (NEPA) is not required.

EAH proposes to reconfigure Nevin Plaza to include 138 residential units and transform the four (4) ground floor units into community and property management spaces. Nevin Plaza would have a +2,500 SF multi-purpose room, +1,500 SF for resident services, +5,000 SF for RHA offices, and +1,313 SF for property management offices. On the additional vacant parcels, EAH proposes a Type-V 4-story wood frame construction over a concrete podium with 70 units, a +1,120 SF lobby and reception area, a +1,350 SF community room, +700 SF for resident services, and a +5,000 SF courtyard.

#### Master Development Agreement (MDA)

On December 15, 2020, the RHA Board of Commissioners authorized the Executive Director to enter into a Master Development Agreement (MDA) and authorized the Executive Director to negotiate and execute any and all related documents and agreements for the rehabilitation of Nevin Plaza, including, without limitation, a ground lease, a purchase and sale agreement for the sale of the improvements, and seller carryback loan documents.

The MDA development site consists of Phase 1 Rehab: 0.92 total acres at 2400 Nevin Avenue including the 12-story, 142-unit Nevin Plaza building; and Phase 2 New Construction: approximately 0.23 acres of vacant property behind the parking lot at 319 25th St. (APNs: 515-261-001, 515-261-010, 515-261-992 and 515-261-003). RHA intends to lease the land, both the land under the building and the newly created parcel on which the new units will be built, to a limited partnership in which EAH Housing or its affiliate will serve as the Managing General Partner. RHA will also sell the building to the Developer, taking back a Seller Loan for the Fair Market Value of the building, which was then appraised at approximately \$27.7 million, excluding the value of the land.

The MDA has been negotiated between RHA (Lessor of the land and Seller of the Nevin Plaza Building) and the Developer (Lessee of the land, Buyer of the building, and the Borrower under the Seller Loan). The MDA sets forth the mutually agreed upon terms for the Developer's purchase and rehabilitation of the Nevin Plaza building and development of new units on the vacant site. On each phase, RHA will share at least 50 percent of total residual receipts with other subordinate lenders as payment toward RHA's Seller Loan on the building, and the Developer will retain the remaining residual receipts as an incentive management fee. RHA will provide a ground lease of each of the Phase 1 and Phase 2 sites to the Developer for a nominal annual payment of \$1 per year. RHA has worked with Contra Costa County Housing Authority (CCCHA) and the

Developer to secure Project Based Vouchers (PBVs) allocated by HUD for Phase 1 and will ascertain whether any PBVs are available for Phase 2.

### Nevin Plaza I Rehabilitation Design and Cost Increases

On October 12, 2022 EAH informed RHA of its submission of updated building permit plans proposing design changes to assist in closing a funding gap resulting from additional construction requirements, increased construction costs, increased construction interest expense due to Federal Reserve Bank rate increases, and a requirement to fund a capitalized operating reserve to fund operating expenses until rehabilitation is completed; Construction interest expense has increased by \$700,000 due to the Federal Reserve interest rate increases of 3.75% to 4.0% from March to November, 2022, plus increases in construction and other costs, including air conditioning and new electrical switchgear.

HUD operating subsidies are not available after the building is conveyed to the Developer, and PBV rent subsidies will not be available until rehabilitation is completed and Nevin Plaza passes HUD's Housing Quality Standards (HQS) inspection. With only the limited tenant-paid rent being received during construction, there will be an operating funding gap, and the lender and investor will require a capitalized operating reserve to fund this gap. EAH has estimated the size of the required capitalized operating reserve (COR) at \$2.6M for the entire construction and lease up period. This amount is currently under review by RHA staff and its consultants.

### Nevin Plaza, I Funding Recommendations and Gap Sources

To minimize the funding gap, EAH proposed a series of changes to the scope of the rehabilitation to reduce construction costs. The Richmond Design Review Board (DRB) approved all of EAH's proposed Exterior Design Value Engineering (VE) changes, with conditions. City and RHA staff also recommended approval of these changes.

City and RHA staff also recommend approval of all EAH proposed Interior VE Changes except staff recommend retaining the air conditioning and the upgrades to the electrical switchgear.

In addition to accepting the DRB-approved exterior design changes and EAH's recommended interior design changes (with the exception of the air conditioning and electrical switchgear upgrades), staff recommend capitalizing the operating reserve in an amount not to exceed \$2.6 million, or a lesser amount recommended by City staff and consultants. Staff recommended no new changes to interior unit finishes.

With the proposed design changes and including the COR, the total funding gap has been estimated by EAH at \$4.6 million.

City and RHA staff have identified potential City funding sources to fill \$3.5 million of the gap, including \$1.75 million of American Rescue Plan Act (ARPA) funds and \$1.75

million of Affordable Housing In Lieu Fee Funds. These funds would be provided to the project in the form of a residual receipts loan to Nevin Plaza I, L.P. to be repaid to the City out of available net cash flow. The available net cash flow would be allocated between the City loan and the RHA Seller Loan. EAH has indicated that it will be able to complete the project with the \$3.5 million in additional funding from the City.

Redevelopment of this site is vital to the surrounding neighborhood, as it will improve the site, add services, and improve and preserve affordable housing for those in need. Furthermore, this action is a deliverable in the 2019 Public Housing Authority Recovery and Sustainability (PHARS) agreement between HUD, RHA, and the City of Richmond.

#### Nevin Plaza I Rehabilitation Project Timeline

Developer RFP Submission	August 19, 2019
Revised Proposal Submission	December 12, 2019
Exclusive Right to Negotiate	May 4, 2020
Master Development Agreement	December 15, 2020
HUD Section 18 Disposition Approval	April 20, 2021
Design Review Board Approval	February 23, 2022
CDLAC/TCAC Notice of Award of Bonds and Tax Credits	June 15, 2022
EAH Letter to City Requesting Exterior and Interior Design Changes and Cost Savings	October 13, 2022
Schedule of Values for Reduced Design Elements Submitted to City	October 21, 2022
DRB Approval of Proposed Design Changes	November 9, 2022
Original Closing Deadline Per Bond Resolution	December 26, 2022
Target Construction Loan Closing	Third Week of January, 2023
Extended Closing Deadline Per CDLAC Memo	March 26, 2023

#### **DOCUMENTS ATTACHED:**

Attachment 1 – Resolution

Attachment 2 – PHARS Agreement