



HOUSING PRESERVATION NEWS

Mercy's Boulevard Court Apartments: Transformation from Roadside Motel to Supportive Housing for the Homeless

Introduction

On October 6th, Mercy Housing California and the Sacramento Housing and Redevelopment Agency (SHRA) celebrated the grand re-opening of the Boulevard Court Apartments, an innovative adaptive re-use and rehabilitation that has transformed a crime-ridden motel in Sacramento into 75 units of permanently affordable housing for formerly homeless individuals with disabilities. That a partnership between a mission-driven nonprofit developer and local government agency succeeded in transforming a formerly blighted property into well-designed housing for the homeless that creates jobs and is a catalyst for further private investment in the neighborhood is a reason to celebrate.

An Opportunity for Neighborhood Transformation

The Stockton Boulevard Redevelopment Area was established in 1994 to respond to the deterioration of Stockton Boulevard, a former major transportation artery linking Sacramento to the City of Stockton. The Boulevard experienced major disinvestment when traffic was drawn away with the construction of State Highway 99 in the early 1960's and the relocation of the California State Fair in 1968. Most of the eight motels on Stockton Boulevard, which once served travelers, began operating as alternative housing for people unable to obtain traditional



Image Credit: Copyright 2011 Michael O'Callahan

housing. Poor management practices resulted in increased criminal activity negatively impacting the commercial corridor and the adjacent residential neighborhoods, causing properties values to decline and affecting the safety of neighborhood residents. Of the eight motels along the stretch of Stockton Boulevard, none was a greater source of concern than the Budget Inn Motel. In 2006 alone, there were 527 calls for police service and in the prior seven years there were 24 code-enforcement cases at the motel. The police spent ten years trying to resolve these problems with no success.

The community was unanimous in its desire to close down the Budget Inn. At the same time, the SHRA initiated a "Motel Reuse Strategy" as part of a larger five-year redevelopment program to reuse and convert obsolete motels, attract high quality design, decrease high crime rates, and increase economic viability in the Stockton Blvd. Corridor. Over a nine-month period that included 22 neighborhood outreach meetings and six governing board approval meetings between November 2007 and July 2008, the community engaged in an intense but meaningful dialogue regarding the neighborhood's role in addressing homelessness, affordable housing and the

(continued on next page)

revitalization of the Stockton Boulevard commercial corridor. Mercy Housing and SHRA's redevelopment plan was eventually approved unanimously by the City Council, allowing Mercy to obtain Low Income Housing Tax Credits and acquire the site in July 2008.

Relocation and Financing Challenges

Even before acquiring the property, Mercy and SHRA faced the initial challenge of estimating the relocation costs for the property's tenants, many who were renting rooms by the week and living with multiple occupants to a room. Another early challenge was that Mercy could not apply for acquisition LIHTC credits because the project failed to meet the "Ten-Year Rule", which requires that there not have been a transfer of more than 49% interest in the property in the ten years preceding the application for acquisition Tax Credits. In addition, Mercy's initial hope of applying for 4% Tax Credits fell through due to insurmountable problems with negative capital accounts. By mid-2008, they shifted their strategy to a 9% LIHTC structure, which meant greater equity and a smaller contribution from SHRA, making the plan more politically palatable.

Soon after the award of 9% Tax Credits in September 2008, Mercy faced a significant hurdle when the frozen capital markets and evaporating demand for LIHTC investment left them unable to secure an investor. Facing an approaching 150-day closing window, CHPC Financial Consultant Laura Kobler recalls how difficult the situation was: "We spent months and months trying to find an investor. But with the market conditions being what they were, plus the fact that it was a motel in a less-than-desirable part of town with residents that were all to be formerly homeless, many with disabilities, meant that the project was nobody's priority," said Kobler.

To add to the financing challenges, the state's ability to fulfill its Multifamily Housing Program Supportive Housing (MHP-SH) funding commitment was called into question when HCD was unable to reassure the banks that it had sufficient cash on hand to fulfill its take-out loan obligations. Without access to private capital or any other solution in sight, the California Tax Credit Allocation Committee (TCAC) stepped in with a new loan program designed to back-stop the MHP dollars using resources made available through the American Recovery and Reinvestment Act of 2009 (ARRA). With CHPC's help, Mercy obtained a \$7.8 million Tax Credit Assistance Program backfill loan to replace the MHP-SH loan while simultaneously exchanging the project's allocation of 9% Tax Credits for \$10.7 million in ARRA Section 1602 Tax Credit Exchange Program funds and, allowing the project to move forward to start construction.

Sacramento Housing & Redevelopment Agency's Pivotal Role

SHRA's pivotal role in the transformation of the Budget Inn began when it introduced Mercy to the property. In addition, SHRA was instrumental in guiding the project through the extensive community outreach, planning entitlements, governing board approval process, underwriting, construction management and the project's compliance of the financial and operational agreements. Finally, SHRA dug deep to make a bold initial commitment of \$6.577 million using a combination of Redevelopment Low/Moderate Housing Funds from the Stockton Boulevard Project Area and Economic Development Initiative (EDI) funds from the US Department of Housing and Urban Development (HUD). This initial commitment provided the critical predevelopment, acquisition and relocation funding necessary to assure the developer, the property seller, and the community that the project would progress while safely securing and maintaining the property. The initial financing plan called for the repayment of 80% of SHRA's funding at construction completion; thanks to the ARRA funding, Mercy was able to make the repayment almost a year ahead of schedule, allowing SHRA to make these funds available to other affordable housing developments.

In the end, SHRA left \$1.273 million in as a permanent funding source, enabling Mercy to leverage \$21.753 million of additional private and other public capital, including \$2.5 million in permanent Mental Health Services Act (MHSA) financing from the California Housing Finance Agency (CalHFA), a \$1.5 million construction loan from

US Bank, and a \$562,500 Affordable Housing Program (AHP) grant by the Federal Home Loan Bank of San Francisco (FHLB). Operationally, the development is able to function as a permanent supportive housing through a variety of rent subsidy mechanisms. These sources include capitalized rent reserves Mercy has set aside in the development budget, MHSA capitalized operating reserve, Shelter Plus Care awarded from HUD and a rent subsidy provided by SHRA.

Who Benefits

The completed 75-unit property consists of 37 one-bedroom units and 37 efficiency units with kitchens and bathrooms and a two-bedroom staff unit. All units are rent and income restricted for 55 years for extremely low-income residents (30% or less of area median income). Forty-nine of the units are restricted to homeless households that are disabled by substance use, mental illness and/or HIV or AIDS. The remaining 25 units are restricted to homeless households who are eligible for services under Mental Health Services Act (MHSA).

Supportive Design: Challenges and Outcomes

The design challenge was to transform the motel into a proud place to call home, complete with resident amenities and the functional space required for all the social services needs of the residents. The design needed to provide the foundation for the resident's continued growth and retention of their housing. To address this goal, eight motel units were converted to community space for a computer room, a lounge, central laundry room and counseling offices. The lobby of the former Budget Inn Motel was expanded to include a reception and lobby area, manager's office, service offices, a workroom, storage, and a restroom. A stand-alone meeting space with kitchen facilities was constructed along with outdoor amenities including a basketball court, grill and patio area, a community garden and a dog run. The project also incorporates the latest energy efficient technologies with a mini-split HVAC system, photovoltaic solar panels, which generate 35% of the total electricity for the entire development, and a solar pre-heating central hot water system, saving over \$3,000 worth of natural gas expenses per year.

The apartments themselves were created out of the existing motel units. The 325 square foot studio layout fit efficiently in the old motel room, while the one-bedrooms were made by combining a middle motel room into the bedrooms of the adjoining rooms on either side. In the final cost analysis, the rehabilitation approach cost about the same as that of constructing a new comparable infill development from scratch. The rehabilitation approach, however, saved time on entitlements and construction, created more local jobs, and was far more energy efficient in that it saved hundreds of tons of waste from being sent to landfills.

Wrap-Around Support: A Path to Recovery

Boulevard Court will also offer crucial supportive services to its formerly homeless community. Mercy Housing has partnered with local service providers – The Effort and Turning Point Community Programs – to ensure that residents have the support they need to manage their individual disabilities. The Effort has been providing primary medical care to the underserved in downtown Sacramento since 1970, offering comprehensive services for the complex needs of the patients who come to their clinic for substance abuse and mental health

SOURCES	Construction	Permanent
US Bank Construction Loan	1,587,888	-
SHRA Acq/Construction Loan	5,304,000	-
SHRA Grant	1,273,000	1,273,000
CalHFA - MHSA	2,500,000	2,500,000
FHLB - AHP	562,500	562,500
TCAP/MHP Backstop	3,125,600	7,814,000
ARRA 1602 Exchange	4,271,300	10,678,371
Energy Rebate - Solar	-	182,460
TOTAL	18,624,288	23,010,331

USES	
Acquisition	5,073,452
Rehabilitation	8,907,551
Relocation	190,688
Architect/Engineer	417,855
Financing Fees/Legal	843,501
Capitalized Reserves	4,535,583
Other Development Costs	1,841,701
Developer Fee	1,200,000
TOTAL	23,010,331

(continued on next page)

treatment. Turning Point will also provide mental health services and programs for Boulevard Court residents.

“We follow a medical mantra that Housing is the Fifth Vital Sign like a pulse or blood pressure,” says Effort CEO Jonathan Porteus. “When provided with stable housing and wrap-around support, all of our clients’ needs become less urgent and they start preventing issues by working with our medical and social support staff instead of reacting to runaway crises because they didn’t have adequate support.”

Porteus remarks, “This housing model also has a highly positive financial impact for the whole community because many of our clients are people who would otherwise be seeking routine medical care in an Emergency Room and now they have an on-site federally-subsidized clinic and case managers who can open the door to all of the services they need in the community.”

PRESERVATION SERVICES FOR NONPROFIT AND LOCAL GOVERNMENT STAFF

CHPC provides technical assistance, and training to help nonprofit and government agencies build and preserve affordable homes for California families and seniors. For more information, please contact our Housing Preservation Specialist, Nadia Shihab at nshihab@chpc.net or 415-433-6804 x 316, or our Housing Policy Manager, Marilyn Wacks at mwacks@chpc.net or 415-433-6804 x 313.



THE SAN FRANCISCO FOUNDATION

The Community Foundation of the Bay Area
