



City Council Report

915 I Street, 1st Floor

Sacramento, CA 95814

www.cityofsacramento.org

File ID: 2018-01265

September 18, 2018

Discussion Item 01

Title: (Housing Authority) Update to Housing Authority Asset Repositioning Plan

Location: Citywide

Recommendation: Review and provide direction related to the proposed Asset Repositioning Plan update for Housing Authority properties.

Contact: La Shelle Dozier, Executive Director, (916) 440-1319, Sacramento Housing and Redevelopment Agency

Presenter: La Shelle Dozier, Executive Director, (916) 440-1319; LaTanna Jones, Assistant Director of Housing, (916) 440-1334, Sacramento Housing and Redevelopment Agency

Attachments:

1-Description/Analysis

Description/Analysis

Issue Detail: In Sacramento there are currently 2712 units of public housing (1699 in the City of Sacramento and 1013 in the unincorporated county and within the cities of Rancho Cordova, Elk Grove, Folsom, and Citrus Heights) which are managed by the Sacramento Housing and Redevelopment Agency (SHRA). There are many significant issues confronting the public housing portfolio in Sacramento. The housing stock is rapidly aging, the federal government has not adequately funded public housing programs for the past seventeen years, and the local demand for affordable housing continues to increase. Many Public Housing Authorities (PHAs) across the nation are facing similar challenges maintaining their public housing inventory. To meet these challenges, the PHAs of both the City and County of Sacramento must take new innovative approaches to preserve and maintain this valuable affordable rental housing portfolio.

In 2008 the City Council, acting as the Housing Authority Board, approved an Asset Repositioning Plan which is a comprehensive approach to help the PHA become fiscally self-sufficient through the development of real estate reinvestment and disposition strategies. CSG Advisors (CSG) was selected to analyze the Housing Authority portfolio and prepare recommendations on the best approach to address the current and long term needs of the properties. Their strategy revealed that the Housing Authority should focus on repositioning:

- Central City downtown elderly/disabled high rise buildings,
- Large family developments such as Twin Rivers, Marina Vista, Alder Gove,
- Scattered sites throughout the City and County of Sacramento.

Since 2008, the following activities have been accomplished:

- 1) Substantial Rehabilitation of five downtown structures (Washington Plaza, Sierra Vista , Sutterview, Edge Water and Riverview);
- 2) Award of a Choice Neighborhood Planning grant for Marina Vista and Alder Grove;
- 3) Award of a Choice Neighborhood Initiative Planning Grant for Twin Rivers;
- 4) Award of a Choice Neighborhood Initiative Implementation Grant for the Twin Rivers site. Relocation and demolition of the first phase of the project have been initiated;
- 5) Transfer of 33 City and 13 County Scattered Site units to the Neighborhood Stabilization Program (NSP);
- 6) Transfer of 52 City and 23 County Scattered Site units to the Purchase and Resale Entity (PRE).

In 2017, CSG was re-selected through a competitive process to reassess the public housing portfolio and update the 2008 Asset Repositioning Plan. CSG reviewed the physical condition of all properties via Physical Needs Assessments, reviewed financial records and property budgets to assess operational efficiencies, reviewed historical property data to determine property trends and neighborhood conditions, and reviewed United States Department of Housing and Urban Development (HUD) requirements to determine viable guidance to help SHRA address the deferred maintenance and capital improvement needs backlog of the public housing properties.

Study Findings and Recommendations

Based on CSG's initial assessment, staff's preliminary recommendation is that the public housing assets should be converted from the Public Housing program to promote sustainability of the properties and to address the growing backlog of capital needs. There are two platforms available for conversion of Public Housing: 1) HUD's traditional Disposition Program known as Section 18, and 2) the Rental Assistance demonstration Program. CSG recommended that the scattered site developments (4 units or less) be converted under HUD's traditional Disposition Program (Section 18). The purpose of the Section 18 Program is to allow Housing Authorities to dispose, demolish, and retain properties without the HUD Declaration of Trust that subjects properties to public housing restrictions. In 2008 scattered sites were not reviewed, however as a result of the conversion to asset management they were considered in the financial analysis. Recent HUD guidance relaxes disposition requirements for scattered sites as they concluded that these types of units perpetuate management burdens for PHAs and are therefore eligible for disposition.

CSG recommends that the properties of five or more units be converted under the Rental Assistance Demonstration (RAD) program. The RAD program was initiated in 2012 to help Public Housing Authorities convert properties to a more sustainable program. HUD determined that the current Public Housing program model was not sustainable as it has resulted in a nationwide capital needs backlog of over \$26 billion dollars. RAD allows PHAs to convert public housing and other HUD assisted properties to long-term, project-based Section 8 rental assistance developments. Converting the properties gives the PHAs access to private debt and equity to address immediate and long-term capital needs. RAD has two components. The first component allows the conversion of public housing and moderate rehabilitation properties to long-term, project-based Section 8 rental assistance contracts. The second component allows rent supplement, rental assistance payment, and moderate rehabilitation properties to convert tenant protection vouchers into project-based assistance at the end of the contract. A key feature of RAD is that PHAs can reposition properties to be more economically sustainable without adverse impacts to the residents. Residents retain their basic protections

and will continue to be charged rents calculated at 30 percent of their adjusted gross income as they are in the public housing program.

SHRA staff has been assessing the RAD program since its inception. However, until recently the RAD program parameters were determined to be of little benefit due to the low rent structure. In 2017, the federal government released an initial plan proposing to substantially reduce federal funding to public housing. Fortunately, the full initiation of that plan was delayed and HUD reinvigorated the RAD initiative to give PHAs a chance to convert their public housing properties. In 2018, the allocation of RAD vouchers was increased to approximately 455,000 units through a new federal appropriation. Though some PHAs have embraced the program, recent reports by HUD staff reveal that only 100,000 units of that allocation have been utilized. In order to prevent loss of critical affordable housing units, and take advantage of the RAD appropriation, it is prudent for the Housing Authority to immediately consider RAD conversion of its public housing assets before the opportunity is no longer available.

CSG prepared guiding principles to be followed in any short or long term repositioning plan administered by the Housing Authority. These important principles are consistent with the mission of the Housing Authority and will be the basis for any conversion activity. They are included in the table below.

Asset Repositioning Guiding Principles
1. Sustain our commitment to house extremely low income households by adopting a “no net loss policy”, requiring the development of at least an equivalent number of replacement units when units are removed from our baseline inventory.
2. Decrease reliance on federal funding sources by leveraging the use of existing sources with private funding (debt and equity) and other sources (grants and local subsidies).
3. Preserve and enhance existing physical housing stock; upgrading stock whenever possible to a 30 year useful life.
4. Locate new units into sustainable and livable communities that meet the specific needs of residents.
5. Incorporate smart growth principles (i.e. energy efficiency, safety/security, quality of life) into project design to the maximum extent possible.
6. Diversify real estate portfolio in creative ways to support extremely low income units.
7. Maximize utilization of existing resources (i.e. vouchers, local funds, the value of HA real estate assets, etc.) to implement development strategies.

8. Reinvest proceeds from the sale of Housing Authority properties in the replacement of units.
9. Promote and support resident self- sufficiency.
10. Seek creative partnership with other agencies, non-profits, community groups, resident advisory boards, and private sector sponsors.
11. Generate developer fees, sales proceeds, or other revenues to SHRA that at least covers associated costs.

Proposed Next Steps

1) Pilot RAD Conversion Sites

The proposed first phase of the Plan will be to implement the pilot RAD conversion of six Housing Authority properties located in the City and County of Sacramento. The six properties require limited rehabilitation and can be converted without gap financing or a complicated financial plan. The selected properties are included in the table below. They are in fair to moderately maintained neighborhoods, and represent a mix of senior and family units.

Proposed Pilot RAD Sites

Point Lagoon (County)		Rio Garden (County)		Oak Park (City)		Meadow Commons (City)	
Property Address	Units	Property Address	Units	Property Address	Units	Property Address	Units
9205 Elk Grove BLVD	16	8223 Walerga	24	4921 Folsom Blvd	10	1043 43rd	28
4300 El Pariso Ave	36						
4500 Perry Ave	10						
Sub Total	62	Sub Total	24	Sub Total	10	Sub Total	28

2) Resident Outreach

A major aspect of converting to the RAD program includes resident/community engagement and inclusion. Staff plans to conduct extensive outreach with residents, community leaders, and advocates ensuring that there is a clear understanding of the RAD program. In addition, best practices reveal that resident consortiums composed of the Resident Advisory Board members, residents from each site, and key stakeholders

are a great resource to raise critical questions, act as a resource for residents, and be ambassadors for the program so accurate and critical information is more easily disseminated. Staff will be pursuing assembling and utilizing a consortium as part of this effort.

3) Complete Feasibility Analysis

Staff will continue to work with CSG to analyze the feasibility of repositioning and converting the public housing portfolio over the next 30 days. Properties will be assessed using similar criteria established in the 2008 Asset Repositioning study: low-high capital needs, operating deficits, revitalization potential, resident retention, small scattered sites and SHRA/local funding required for conversion. CSG has already reviewed the physical needs of the properties against HUD's obsolescence criteria for demolition. HUD regulations mandate that in order to demolish an entire development, the development must be obsolete as to physical conditions, location, or other factors making it unsuitable for housing purposes. A PHA must prove that no reasonable modifications are cost-effective to return the public housing property or portion of the property back to its useful life. HUD generally considers modification not to be cost effective if costs exceed 62.5% of total development cost for elevator buildings or 57.14% for other type structures. CSG's conclusion was that no properties in Sacramento meet the HUD demolition requirements at this time. The Housing Authority will therefore consider project feasibility based on rehabilitation of the property as opposed to demolition and reconstruction.

4) Return with recommendations

Staff will return with final recommendations and a request to submit a reservation to HUD for RAD conversion in the fall of 2018. The 2008 Asset Repositioning study concluded that the focus for asset repositioning should be on Central City Elderly/Disabled properties, Large Developments (Marina Vista, Twin Rivers and Alder Grove) and Scattered Sites. The preliminary assessment of these properties does not refute those conclusions. However, timing is a new issue regarding the availability of RAD vouchers, disposition approvals with replacement tenant protection vouchers for small scattered sites, and the repayment of the loan on the Riverview Plaza development in December of 2019. As a result, the Housing Authority must also review extenuating conditions that require immediate action related to the initial properties being considered for RAD conversion.

Policy Considerations: This report is consistent with the 2018 Public Housing Authority Plan to transition and convert properties to the Rental Assistance Demonstration Program. The efforts are also consistent with the SHRA's mission to promote self-sustaining housing opportunities that serve extremely low-income residents in the City and County of Sacramento.

Economic Impacts: None.

Environmental Considerations: The proposed action is a planning activity for potential future projects. As such, it is exempt from further environmental review at this time pursuant to California Environmental Quality Act (CEQA) per Guidelines Section 15262. Full environmental review shall be conducted before SHRA is committed to a definite course of action or approval of a specific project for any Housing Authority development site. The National Environmental Policy Act (NEPA) does not apply.

Sustainability: Not applicable.

Commission/Committee Action: This information was reviewed by the Sacramento Housing and Redevelopment Commission at its meeting of September 5, 2018.

Rationale for Recommendation: Not applicable.

Financial Considerations: This is an information only report and no specific financial considerations or changes are recommended. However, future actions based on the results of the pending plan regarding this report may have financial impacts on SHRA. Costs to cover predevelopment activities and scenarios requiring gap financing will be future considerations of this analysis. Staff will seek to minimize all such costs and bring specific information back to the Board for consideration.

Local Business Enterprise (LBE): Not applicable.