



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**

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CITY MANAGER'S OFFICE
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March 14, 1989

Sacramento City Council and
Redevelopment Agency of the
City of Sacramento
Sacramento, California

APPROVED
BY THE CITY COUNCIL

MAR 14 1989

OFFICE OF THE
CITY CLERK

APPROVED
MAR 14 1989
SACRAMENTO REDEVELOPMENT AGENCY
CITY OF SACRAMENTO

Honorable Members in Session:

Subject: Organizational Status of Sacramento Mutual Housing
Association; Sale of Glen Ellen Estates

SUMMARY

On November 9, 1988, the City Council recognized the organization of Sacramento Mutual Housing Association ("the Mutual"). Also on the same date, the Redevelopment Agency of the City ("the Agency") voted to approve the sale of Glen Ellen Estates to the Mutual, subject to appropriate and adequate financing being obtained by the Mutual. The Executive Director was directed to report back at a later date with a progress report on the organizational status of the Mutual and a detailed financial analysis of the Glen Ellen project, at which time final approval of the sale would be voted upon by the Agency.

This report recommends: 1) final approval of the sale of Glen Ellen Estates to the Mutual, 2) approval of a conditional grant to the Mutual of up to \$300,000, to go towards the acquisition and rehabilitation of Glen Ellen Estates and 3) approval of a short-term construction loan to the Mutual in an amount equalling the difference between the purchase price of the property and the final amount of the conditional grant.

BACKGROUND

Introduction

In March, 1988, the Redevelopment Agencies of the City and County, acting as agents for the City of Sacramento and the County of Sacramento, contracted with Neighborhood Reinvestment Corporation (NRC) to review the feasibility of establishing a mutual housing

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association in Sacramento and to recommend an initial housing site.

A mutual housing association is a democratically run, private, non-profit, tax-exempt organization whose membership is comprised of resident and pre-resident members, government and business representatives and professionals in real estate development and housing management. Resident and pre-resident members comprise a numerical majority of voting members on the Board of Directors. The association acts as an on-going developer, owner and operator of housing in the public interest at minimum long-term costs in public subsidies. It has dual goals of healthy economic integration and serving a significant number of lower income households.

A steering committee was formed to accomplish the tasks set forth in the contract with NRC. The steering committee's report, transmitted to the City Council and the Agency on November 9, 1988, recommended the acquisition and rehabilitation of Glen Ellen Estates as the Mutual's starter project. Glen Ellen Estates is a 36-unit complex which was acquired from the U.S. Department of Housing and Urban Development (HUD) by the Agency in August, 1988.

At the same meeting, the City Council and the Agency approved the sale of Glen Ellen to the Mutual, subject to appropriate and adequate financing being obtained by the Mutual. The Executive Director was directed to report back at a later date with a progress report on the organizational status of the Mutual and a detailed financial analysis of the Glen Ellen project, at which time final approval would be voted upon by the Agency.

Organizational Status of the Mutual

On November 14, 1988, NRC sponsored a day-long organizational workshop at which the Mutual was formally ushered into existence. At the workshop, which was attended by a wide range of community representatives, the concept of mutual housing was explained, NRC's involvement with mutual housing on a national level was described, membership in the Mutual was conferred to those attendees who desired to become involved on an ongoing basis, bylaws were adopted, a Board of Directors was elected (see Exhibit A), and a budget was approved.

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Since the workshop, the Board of Directors has met four times and will continue to meet monthly unless otherwise notified. Officers have been elected and standing committees established. The Board has reviewed and approved workplans and financing arrangements in regard to Glen Ellen. The Personnel, Operations and Management, and Resident Membership Policy and Recruitment Committees will meet within the next few weeks to address staffing concerns (see discussion below), to formulate a Management Plan, and to develop tenant selection and marketing procedures.

In conjunction with its role as facilitator in the development of the Mutual, NRC has committed to the ongoing training of Board and Association members. For example, the February meeting of the Board was preceded by a financing seminar presented by representatives from NRC and Rural California Housing Corporation (RCHC), in order to explain fully the types of loans expected to be used to finance the Glen Ellen project.

On most counts, the development of the Mutual as an association has progressed smoothly. However, the issue of permanent staffing for the Mutual has yet to be resolved. Up until this time, NRC has contracted with RCHC to provide all required staff services. Recently, RCHC completed the tasks agreed to in its original contract with NRC. NRC staff has historically been of the opinion that the Mutual should hire an independent Executive Director to coordinate the operations of the Mutual. After much discussion with staff, it currently appears that NRC is willing to extend RCHC's staffing contract until at least the rehabilitation of Glen Ellen is completed and a Certificate of Occupancy is issued. Staff strongly feels that this will be necessary to provide for coherent, multi-faceted staffing, particularly until the Glen Ellen project is up and running. Concurrently, an Executive Director can be recruited and trained or alternative staffing plans can be negotiated and arranged. A special joint session of the Personnel and Executive Committees will meet shortly to review and finalize staffing plans.

Glen Ellen Project

The Mutual is anticipating the acquisition of Glen Ellen Estates from the Agency for \$643,031, which is the price the Agency paid HUD. Latest estimates are that rehabilitation costs will total

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\$785,881. The cost breakdown on the project is expected to be as follows:

* Acquisition	\$643,031
* Total Construction Costs	611,644
* Development Fees	84,112
* Other Development Costs (interest, insurance, and closing)	45,125
* Replacement Reserves	45,000
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TOTAL	\$1,428,912
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The permanent financing breakdown is expected to be as follows:

* Savings Association Mortgage Company (SAMCO) loan	\$366,075
* Neighborhood Housing Services of America (NHSA) loan	345,844
* State Deferred Rehab loan	225,000
* HUD Rental Rehab loan	270,000
* Tax Increment Conditional Grant (as needed but not to exceed \$300,000)	221,993
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TOTAL	\$1,428,912
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* The loan committee of SAMCO will meet on April 10, 1989 and will approve or disapprove the Mutual's application at that time. NRC staff have worked closely with SAMCO representatives and feel that the application will be viewed favorably by the committee. According to an arrangement which appears to be acceptable to both SAMCO and NHSA, this loan would be secured by a first deed of trust on 5 of the 9

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fourplexes. The loan would be fully amortized, would have a 30 year term and would carry an initial interest rate of 9.85% (The actual interest rate approved at the loan committee meeting may be higher as a result of the recent increase in the prime rate. An interest rate increase will result in a larger Tax Increment grant, but in no case will the grant exceed \$300,000. See discussion on the grant below.) The initial interest rate would remain fixed for 10 years, and thereafter would be adjustable every 5 years at 200 basis points above the 11th District cost of funds. There would be a 4 point cap over the life of the loan.

* At their March 21, 1989 loan committee meeting, NHSA, a sister organization to NRC, will review an application by the Mutual for a 30 year, fully amortized, 8% fixed rate loan, secured by a first deed of trust on 4 of the 9 fourplexes. NRC has already received a verbal commitment from NHSA in regard to this loan.

* Application has been made to the State under their Deferred Payment Rehabilitation Loan Program for a 3%, deferred payment loan, renewable every five years up to 30 years. Because the amount applied for is over the State's standard \$200,000 cap on any one project, the application has to go to a loan committee, which will meet on March 24, 1989. The program operates under an "open window" system; if the application is approved, a reservation will be put on any funds available from repayments on outstanding loans. Additional monies may also become available in late spring from Proposition 77 funds. The Agency's Tax Increment grant will be increased to the extent that the Mutual is unable to secure the full \$225,000 in State funds; however, in no case will the Tax Increment grant exceed \$300,000. (See discussion on the grant below.)

* The Mutual has also applied for the maximum loan amount allowable under the HUD Rental Rehab Block Grant program, administered by the Agency. The application will go to loan committee on March 9, 1989 and is expected to be approved at this time. This will be a 0%, 15 year, deferred payment loan.

* As part of the Agency's initial contract with NRC for the development of the Mutual (signed on March 15, 1988), the

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Agency agreed to finance the Mutual's first project in an amount not to exceed \$300,000. Therefore, in conjunction with the sale of Glen Ellen to the Mutual for \$643,031, staff recommends that the Agency make a conditional grant to the Mutual of up to \$300,000. The exact amount of the grant will depend on 1) the interest rate on the SAMCO loan and 2) the amount of money the Mutual is able to obtain under the State Deferred Rehab program. Also, staff recommends that the Agency make a short-term, 0%, construction loan to the Mutual in an amount equalling the difference between the purchase price of the property and the final amount of the conditional grant. The short-term loan would be payable when the Mutual receives takeout financing from a permanent lender.

Grant Conditions, Loan Agreements and DDA Stipulations

Staff recommends that the Tax Increment commitment be structured as a conditional grant, rather than a deferred payment or forgivable loan, for several reasons: 1) a conditional grant is "cleaner" and easier to administer than a forgivable loan, 2) a grant will be counted as equity whereas a loan, even though it is "forgivable", will still be counted as debt. Thus, a grant will provide an overall loan to value ratio on the property at a level necessary to secure the other financing outlined above, 3) for the reason described above, the grant will allow future refinancing on the property, which, according to the Mutual's intent and charter, will be used to develop other affordable housing units.

In general, although a grant would not necessarily be appropriate as a financing mechanism in many of the Agency's projects, in this case staff supports a grant because the Mutual is a non-profit entity committed to ongoing ownership of affordable housing, as opposed to a private, for-profit corporation.

Certain conditions, described below, will be attached to the grant. If, in worse case terms, the Mutual does not meet the conditions of the grant, the grant amount immediately becomes due and payable to the Agency. Should the Mutual not pay, the Agency has the right to take back the Glen Ellen property. In one sense, the grant allows a greater degree of control over how Glen Ellen is managed, because, theoretically, a loan could be repaid, at which time all restrictions on the property would become void; a grant, on the other hand, will carry restrictions on the property for the full length of time delineated in the regulatory agreements.

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Adequate provisions will be incorporated into the grant documents, as well as the DDA on the property, to ensure that the property is well managed and maintained, that units are not overcrowded, that the Agency has first right of refusal on any future sale, that any refinancing is subject to Agency approval, and that the Agency has a right to review financial statements on the property and on the Mutual itself. (The Mutual, as an entity entirely separate from the Agency, will handle all of its own accounting itself but will be required by the Agency, through the grant documents and the DDA, to be audited yearly by a Certified Public Accountant).

In regard to keeping the property affordable to low-income households, the HUD Rental Rehab Program normally does not allow any rent or income restrictions to be placed on projects to which it makes loans. However, projects in several other localities, including Davis, have received waivers from HUD which have allowed the combining of HUD Rental Rehab funds with State Deferred Rehab funds -- and the imposition on the project of the rent and income restrictions required under the State Deferred Rehab program. The Agency has spoken with HUD and received their verbal assent to a similar combination of funds on the Glen Ellen project. A written waiver has been requested for our files. The Agency will then structure the Tax Increment grant restrictions so that they "piggyback" on to the State's restrictions.

Therefore, initial rents for all units at Glen Ellen will be \$350. Rents may increase yearly by no more than 50% of the percentage increase in the most recent "Western CPI All Items Index" as published by the U.S. Bureau of Labor Statistics. (Alternatively, the Mutual may choose to increase rents by the percentage amount that actual expenses exceeded planned expenses in the previous year). All units will rent to households whose incomes are no more than 80% of area median income adjusted for family size.

The Glen Ellen property will be required to have outside, professional management for three years, after which time the Mutual may manage the property itself provided it has appropriate professional staff in place. The Operations and Management Committee of the Mutual is preparing a detailed Management Plan, Management Agreement and Occupancy Agreement, which should be completed in the next month.

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Timing

If the final sale of Glen Ellen is approved, the Mutual expects to advertise bids early in March, 1989, to open bids in late March, and to commence construction in May. It is anticipated that the units could be completed and ready for occupancy by December.

FINANCIAL CONSIDERATIONS

At its November 9, 1988 meeting, the City Council and the Redevelopment Agency of the City approved the sale of Glen Ellen Estates to the Mutual and authorized the Executive Director to negotiate the terms of the sale and other financial participation by the Agency and the City. Staff proposes that up to \$300,000 of the purchase price on the property be credited as a conditional grant to the Mutual and that the difference between the purchase price of the property and the amount of the conditional grant be considered a short-term construction loan to the Mutual, payable when take-out financing is received from the two permanent lenders. The original source of funds for the acquisition was the Downtown Redevelopment Area Tax Increment Replacement Housing Fund, which will recognize the proceeds of the sale of Glen Ellen. The sale proceeds will be used to fund the short-term loan and conditional grant. The budget for Glen Ellen (Cost Center:A01002) will need to be increased by \$643,031 at the time of the sale.

MBE/WBE EFFORTS

Loan and grant regulatory agreements on the proposed Tax Increment financing will stipulate that Agency MBE/WBE requirements be adhered to in the advertising and accepting of bids for the rehabilitation of the Glen Ellen property.

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ENVIRONMENTAL REVIEW

NEPA: The federal undertaking involved in this project concerns the major rehabilitation of the Glen Ellen structure using HUD Rental Rehab funds. Prior environmental review for the HUD Rental Rehab program is still adequate and complete and a site specific analysis is on file.

CEQA: Categorically excluded per Section 58.35(a)(4)

POLICY IMPLICATIONS

Sale of the property to the Mutual is consistent with current policy.

The recommendation that the Agency finance the project with a \$300,000 conditional grant, rather than with a deferred payment or forgivable loan, represents somewhat of a new policy direction, although the Agency has made grants to non-profit organizations in the past. Staff believes that, in this instance, a grant will achieve the same policy objectives that a loan would but will benefit the recipient to a greater degree.

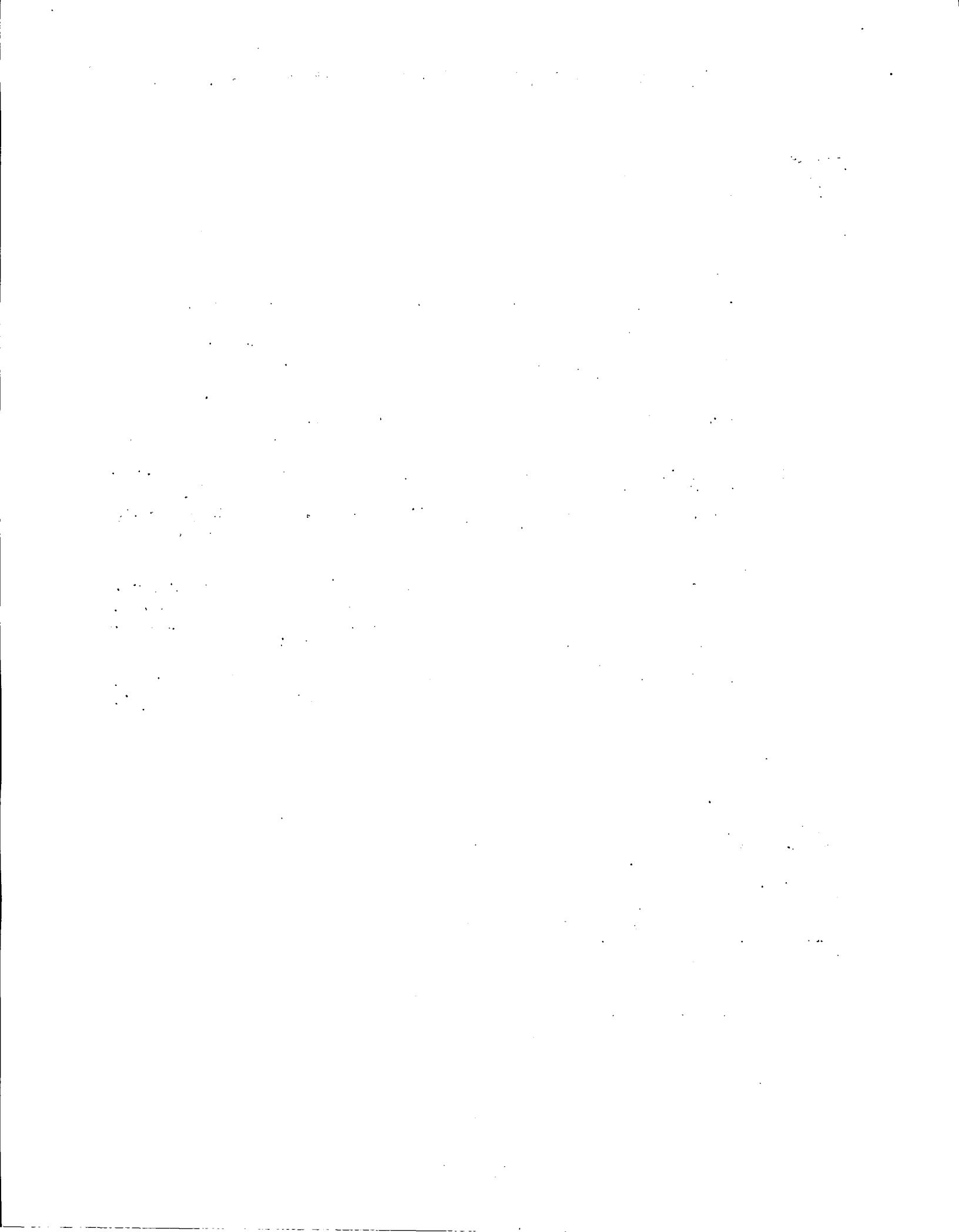
VOTE AND RECOMMENDATION OF THE COMMISSION

At its regular meeting of March 6, 1989, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES: Amundson, Moose, Sheldon, Simpson, Strong,
Yew, Wiggins

NOES: None

ABSENT: Simon, Wooley



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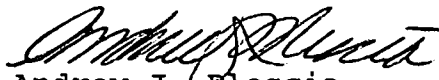
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STAFF RECOMMENDATION

Staff recommends approval of the attached resolutions which:

1. Approve the sale of Glen Ellen Estates to Sacramento Mutual Housing Association for \$643,031;
2. Approve up to \$300,000 as a conditional grant to Sacramento Mutual Housing Association for the acquisition and rehabilitation of Glen Ellen Estates;
3. Approve a short-term construction loan to Sacramento Mutual Housing Association in a amount equal to the difference between the purchase price of the property and the final amount of the conditional grant described in #2 above;
4. Authorize and direct the Executive Director to enter into all agreements necessary to finalize the sale, the loan, and the grant, including the Disposition and Development Agreement, the regulatory agreements and trust deeds and;
5. Authorize the Executive Director to amend the Agency budget for the sale of Glen Ellen Estates to Sacramento Mutual Housing Association.

Respectfully submitted,


Andrew J. Plescia
Acting Executive Director

TRANSMITTAL TO COUNCIL:



WALTER J. SLIPE
City Manager

Contact Person: John Molloy, 440-1357

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RESOLUTION NO. 89-021

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

RESOLUTION
SACRAMENTO MUTUAL HOUSING ASSOCIATION

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1: The sale of Glen Ellen Estates to Sacramento Mutual Housing Association for \$643,031 is approved.

Section 2: In accordance with the staff report filed with this resolution, a conditional grant of up to \$300,000 to Sacramento Mutual Housing Association, to be used for the acquisition and rehabilitation of Glen Ellen Estates, is approved.

Section 3: In accordance with the staff report filed with this resolution, a short-term construction loan to Sacramento Mutual Housing Association in an amount equal to the difference between the purchase price for the property and the conditional grant described in Section 2, is approved.

Section 4: The Executive Director is authorized to enter into all agreements and instruments, as approved by Agency Counsel, necessary to finalize the sale, the loan and the grant, including the Dispositiona nd Development Agreement, the regulatory agreements and trust deeds.

Section 5: The Executive Director is authorized to amend the budget in accordance with the staff report filed with this resolution.

CHAIR

ATTEST:

ASSISTANT SECRETARY

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SACRAMENTO MUTUAL HOUSING ASSOCIATION
BOARD OF DIRECTORS
January 1, 1989

Interim Board Officers:

Joe Jimenez, President
JFJ Enterprises

Clarence Gentry, Vice President
Rio Linda Target Area Committee

Collette Johnson-Schulke, Secretary
Sacramento Board of Realtors

Don Holland, Treasurer
FPI Real Estate Group

Board Members:

Mildred Becker
Gray Panthers of Sacramento

Dolores Castillo
Centro Guadeloupe
Catholic Social Services

Doetha Chapman
Human Rights/Fair Housing Commission

Hank Fisher
Hank Fisher Properties

Rev. Broderick Huggins
Del Paso Union Baptist Church

The Honorable Terry Kastanis
Sacramento City Council

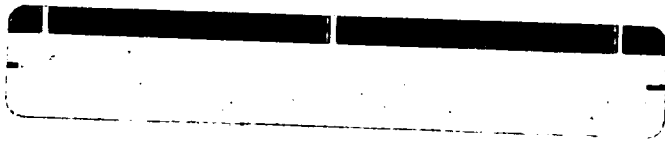
Georgette Lehocky
Neighborhood Resident

Jackie Mazur
Lutheran Social Services

Howard Owens
Community Member

William Powers
Western Center on Law And Poverty

Barrie Roberts
Legal Services of Northern CA



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