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SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

CITY MANAGER'S OFFICE
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APPROVED
BY THE CITY COUNCIL
MAY 28 1985
OFFICE OF THE
CITY CLERK

Sacramento City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Single Family Bond Program - Developer Selection Criteria

SUMMARY

The Board of Supervisors is being asked to adopt the attached Single Family Developer criteria. The criteria was developed to provide a more quantitative and objective approach to allocating available single family bond proceeds between developers. The criteria will mainly be used to screen developers. The actual allocation formula will depend on the amount of allocation awarded to the City and County by the State, and the amount of demand for these funds. In any event, no developer will receive more than a 30% bond subsidy (including CHFA money) per development.

BACKGROUND

The Sacramento Housing and Redevelopment Commission requested staff develop a criteria system that would be used to allocate single family bond funds among developers. The intent of the criteria is to provide a quantitative and objective approach to allocating available single family bond proceeds.

The criteria being recommended are basically those used informally by the County in determining previous allocations on past bond issues. The only major difference is that the criteria being presented are more formal and allot a point value to the items. Additionally, staff is recommending that as a rule, the total bond subsidy available to a specific development (including California Housing Finance Agency bond money) should not exceed an amount equivalent to 30% of the units in that development. This restriction is recommended because developers often receive bond financing

All Districts
5-28-85

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through both CHFA and the County. Limiting bond subsidy to no more than 30% of the units in a development will help ensure a good dispersion of bond funds and lower the risk of their not being fully utilized.

The various criteria and guidelines being recommended are quite detailed and are fully stated on the attached listing. The rationale behind each is explained below.

Price of Home. This criteria reflects the policy of the Board as recently adopted on March 5, 1985 under the Single Family Policy Statement. Under the policy, the County attempts to ensure affordability by targeting 1/3 of the allocation to individuals earning under 80% of median income, 1/3 to individuals earning between 80% and median income, and 1/3 to individuals earning between median and 120% of median.

This goal can be accomplished by awarding higher points to lower priced homes.

Developer Experience. The intent of this criteria is to enhance the rating of the bonds by awarding higher points to more experienced developers. Experience is defined by the number of units developed or the length of time in the home building industry. The rationale for this criteria is that the higher level of builder experience in the pool, the higher the likelihood of projects being constructed and mortgages placed.

Readiness to Use Funds. This criteria is important for obtaining a strong rating because the Rating Agencies look at past usage of funds to rate new issues. Because the City and County have issued Single Family bonds annually for the past three years, expeditious usage of existing funds is important to demonstrate the demand for new issues. To ensure expeditious usage of funds, the County will look to developers who either have stock in place or who are under construction and can have units ready for occupancy within six months of bond sale.

Detached vs. Attached. The criteria favors single family detached housing versus condominium and townhomes because Sacramento's housing market is more favorable to single family detached homes. As a guideline, staff recommends that no more than 10% of the bond pool be used to finance condominium and townhome mortgages.

Site. Points will be awarded after a site visit and based on the factors noted (e.g., proximity to schools and shopping, quality of infrastructure, proximity to commercial/industrial sites). Review of the site is done as a matter of course in order to assess the overall marketability of the projects and, hence the feasibility of the bond issue. This information is considered by the Rating Agency when determining a bond rating. In fact, Standard and

Poor's, as a rule, performs their own site visit. In the use of a rating by Moody's, as was done last year, the County took photographs of the sites and presented the photographs to the rating agency.

Geographic Location. This criteria focuses on developments in "blighted" or "distressed" areas of the City and County. The intent is to bring affordable housing into the bond pool by awarding points to developments in areas where affordable housing is likely to be located (e.g., areas where a majority of the population earns under 80% of median income).

Other. This criteria is intended to promote minority and women owned development businesses. Minority business is defined under the Agency's Minority Business Plan.

The point system is intended as a screening device and a method to objectively rank one developer against another. Given our historical experience with the size of the allocation received, total developer demand, and the mix of project submittals, it is likely each developer will receive some percentage of their request based on the number of points they earn through the criteria ranking index. In any event, no developer will receive more than 30% of bond financing per project.

Update on Resale Portion of Bond Issue

The Single Family Policy Statement adopted by the Board on March 5, 1985 expresses the Boards intent that 20% of bond proceeds be set aside for one year to make loans available for resale homes anywhere in the City or County. The Statement pointed out that it is generally possible to reach a low-income level family through enabling them to purchase a resale vs. a new home because of the lower price levels on resale homes. To include a resale provision in the bond program, the Agency will look to area realtors and mortgage banks to front the fee required to reserve bond proceeds.

Staff has been contacting area realtors and mortgage bankers to elicit their interest in the bond program.

Another way the Agency may be able to encourage resale home participation in the bond program is through Mortgage Credit Certificates (MCC). These certificates were authorized by the Federal government under the Tax Reform Act of 1984. In general terms, a MCC provides the homebuyer with a credit against Federal income taxes owed for a specific percentage of any mortgage interest paid on a conventional market loan. A tax credit allows the taxpayer to deduct the amount of the "credit" from the total tax bill due. (This differs from a tax "deduction" which is a subtraction from the taxable income before taxes are figured.) The MCC, in effect, lowers the borrower's mortgage rate by applying monies retained as a result of the credit (e.g., monies that otherwise would have been paid as Federal income taxes) to buy down a portion of their monthly mortgage payment. For example, a 10% MCC applied to a $100,000 mortgage loan at 13% will yield an effective interest rate to the borrower of 11.7%.

Under the law, the Certificate credit rate can go up to 50%, however, there is a $2,000 "cap" on the credit amount allowed. Use of MCCs is dependent on the Federal government adoption regulations and those regulations being workable in practice. Additionally, MCCs also have to be authorized by the State. The details of how MCCs will be administered has not yet been worked out by the State or Federal government. Staff requests that, should the necessary State and Federal authorizations be obtained, that MCCs be authorized within our bond program up to the 20% limit currently placed on resale homes.

ENVIRONMENTAL REVIEW

Environmental review is not required.

POLICY IMPLICATIONS

The items in this staff report are consistent with existing policy.

FINANCIAL IMPLICATIONS

Under the Single Family bond program, developers pay a 1/10th of 1% fee on application. All costs of issuing bonds are paid for from developers fees. The bonds are not a financial obligation of the issuer, but are backed by mortgage payments and private mortgage insurance. The Agency annually receives 1/10th of 1% of the principal amount outstanding on the bonds.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of May 20,1985, the Sacramento Housing and Redevelopment Commission adopted a motion recommending adoption of the attached resolution. The votes were as follows:

AYES: Amundson, Lopez, Luttrell, Moose, Pettit, Sanchez, Teramoto, Walton, Wooley, Angelides
NOES: None

ABSENT: None

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SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

RECOMMENDATION

Staff recommends adoption of the attached criteria and guidelines. The criteria will be used in allocating future Single Family bond fund monies.

Respectfully submitted,

for WILLIAM H. EDGAR
Executive Director

Contact Person: John Molloy
440-1360

TRANSMITTAL TO COUNCIL

WALTER J. SLIPE
City Manager

BL:j
4/23/85
SF Dev Criteria

SINGLE FAMILY BOND

A. PRICE OF HOMES*

15 pts. under $66,000 (assumes this price is affordable to households with incomes under 80% of median)*

10 pts. $66,001 - $84,000 (assumes price is affordable to households with incomes at 80% of median to median)*

5 pts. $84,001 - $100,000 (assumes price is affordable to households at median to 120% of median)*

0 pts. Over $100,000

B. READINESS TO USE FUNDS

10 pts. - Project ready for occupancy at time of bond sale but projects not completed for more than one year prior to bond application

7 pts. - Project ready for occupancy within six months of bond issuance

4 pts. - Project ready for occupancy within six months to one year from bond sale

0 pts. - Project ready for occupancy after one year of date of bond sale

C. DETACHED/ATTACHED

10 pts. - Single family detached or subdivisions containing both attached and detached facilities (no more than 50% attached)

5 pts. - Condominiums/townhomes

*Price of home will change as median income changes. In the case of multiplan developments, each price plan will be individually assigned points, and an average taken of each plan.

D. <u>EXPERIENCE OF DEVELOPER</u>

i. 10 pts. if developer has constructed over 200 units within the past three years (minimum 67 units per year) <u>or</u> has been directly involved in the building of single family homes for at least five years

6 pts. if developer has built 75 - 200 units within the past three years (25 - 75 units per year) <u>or</u> has been directly involved in the building of single family homes for at least three years

2 pts. if developer has built under 75 units within the past three years (minimum of 25 units per year) <u>or</u> has been directly involved in building single family homes for at least two years

ii. 5 pts. if developer has participated in past City or CHFA bond programs and used proceeds within time allotted

E. <u>SITE</u>

(Ten points maximum. Points to be determined by site visit.) Consider: proximity to schools and shopping, road access, neighborhood stability, proximity of commercial/industrial businesses, quality of infrastructure (roads, water, sewer, etc.)

F. <u>GEOGRAPHIC LOCATION</u>

15 pts. - project in bond target area (areas where 70% of population earns under 80% of median)

10 pts. - project in Community Development Block Grant target area or Redevelopment target area

5 pts. - project in area where 50% of the population earns less than 80% of median income (to be determined by the Agency)

G. <u>OTHER</u>

5 pts. - if developer is a minority or women's business enterprise as certified by the Sacramento Housing and Redevelopment Agency. A minority or women's business is defined as an independent business concern which is at least 51% owned and controlled by minority group members (Black, Asian, Pacific Islander, Hispanic, Native American or Alaskan Native).

GENERAL GUIDELINES

- As a rule, no more than 30% of the units in a development can receive bond subsidy (includes City and CHFA money) except for small infill (under 50 units) and target area projects.

- As a rule, no more than 10% of the bond pool will be used to finance condominiums or townhomes.

- The use of bond proceeds in the City and County will be commensurate with the allocation requested from each jurisdiction (for 1985, each entity requested $50 million from the State Treasurer).

- Five percent (5%) of the bond pool available for new construction will be reserved for single family developers with less than two years experience, who can demonstrate ability to build and market homes through past work experience or educational credentials. The funds will be reserved only during the application period.

RESOLUTION NO. 85-409

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

MAY 2 8 1985

CRITERIA FOR ALLOCATION
OF SINGLE FAMILY BOND PROGRAM

WHEREAS the City and County issue a Collaborative Single Family bond program; and

WHEREAS developer demand for bond allocation has exceeded the allocation available; and

WHEREAS program criteria are needed to objectively allocate funds; and

WHEREAS Mortgage Credit Certificates potentially could enable the bond program to include resale homes; now, therefore

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

Section 1: The criteria for allocation of Single Family Bonds attached to the staff report is hereby and shall be applied to all single-family bond issues after the date of this resolution.

Section 2: Subject to receiving workable state and federal authorizations for Mortgage Credit Certificates, such Certificates will be authorized within the single-family bond program. Certificates are to be used in order to achieve the goal as set forth in the single family policy statement adopted by the City Council on March 5, 1985, that 20% of the City's bond allocation is to be used for resale homes.

ANNE RUDIN
MAYOR

ATTEST:

LORRAINE MAGANA
CITY CLERK

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