



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



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May 24, 1988

Budget and Finance
Committee of the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Tax Credit Syndication for Riverview Plaza Housing
Development

SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the Housing Authority of the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the attached resolution approving the implementation of the syndication..

Respectfully submitted,

William H. Edgar
WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL:

Jack R. Crist
JACK R. CRIST
Deputy City Manager

Attachment

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**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



May 23, 1988

Housing Authority of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Syndication of Riverview Plaza

SUMMARY

This report recommends that the Council take several actions with respect to the syndication of Riverview Plaza. These include adopting the attached resolution which:

- (a) Directs staff to proceed with the tax credit syndication of Riverview Plaza and change the occupancy requirements to 100 percent low income. This change will promote the Housing Authority's goal of creating housing affordable to very low income households and will raise between \$4.7 - \$5.7* million in capital to be used to preserve and promote other low income housing projects.
- (b) Authorizes staff to proceed with the subdivision of the project into commercial and residential space;
- (c) Approves transfer of the project ownership to FUND INC., or another Agency affiliated nonprofit;
- (d) Approves creation of the limited partnership that will own the project;

*As indicated on Attachment B, these amounts are net of the funds needed to subsidize the food services and cover the reduced rents.

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(1)

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(e) Authorizes staff to submit an application to the State Tax Credit Allocation Committee; and

(f) Authorizes staff to take other steps as necessary to structure the syndication in preparation for contacting potential investors.

BACKGROUND

On April 12, 1988, the City Council directed staff to proceed in analyzing the feasibility of syndicating Riverview Plaza. Specifically, staff was requested to analyze the amount of equity capital that could be raised from the syndication under different low income occupancy scenarios. The syndication is designed to take advantage of the low income housing tax credits which became available as a function of the 1986 tax reform. The amount of tax credit available to the project is based on the number of low income units set aside in the project. The more low income units, the greater the available tax credit on the project, and hence the more equity capital that can be raised.

The state and federal laws authorizing the tax credit program require a minimum level of low income occupancy. Under the program rules, a project can: (a) provide a minimum of 20 percent of its units to households who earn less than 50 percent of median at rents not to exceed 30 percent of 50 percent of median income, less a utility allowance; or (b) provide a minimum of 40 percent of its units to households who earn under 60 percent of median income at rents not to exceed 30 percent of 60 percent of median income, less a utility allowance.

Riverview Plaza as currently conceived, assuming no syndication, makes 20 percent of its units available to households earning less than 50 percent of median, 20 percent to households earning less than 80 percent of median, and 60 percent of its units to households earning less than 120 percent of median income. A summary of the income and rent requirements of the project under the present structure and under the proposed syndication is included as Attachment A. Rents in the project currently range from a minimum of \$98 per month to \$420 for the so-called "market" rate units (which are themselves highly subsidized).

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Two tax credit syndication analyses were completed: 40 percent low income and 100 percent low income. As the number of low income units increases, the amount of equity capital increases. As noted below, the net capital contribution to the project under these two scenarios ranges from \$1.9 million to \$5.7 million. These capital contributions will be paid in over eight (8) years. Attachment B outlines the pay-in schedule for each low income set-aside scenario.

Percent Low Income	40%	100%
Total Net Capital Contribution in \$ million	1.94-2.88	4.73-5.71

These figures are based on very conservative assumptions. The lower range numbers assume payment to an intermediary called a broker/dealer who assists in the syndication. In addition, the figures assume a \$600,000 annuity is created to subsidize a portion of the meal cost annually for 15 years. (Note: the Internal Revenue Service has indicated that if a tax credit project includes a mandated meal program, the meal cost must be counted within the rents which are subject to limits under the tax credit program. This requirement makes the project economically infeasible if meals are mandated, but does not apply if the meal program is voluntary. Although a voluntary meal program is possible, lack of full participation in meals by occupants would make the program economically infeasible for the meal provider. Staff is exploring various ways to address this problem including subsidizing a portion of the meals, or opening the meal program to Riverview and Ping Yuen residents. The \$600,000 annuity assumes a \$50 subsidy per unit per month. Also note that since "care" facilities are not eligible for tax credits, the service package offered in the building will have to be carefully structured so as not to run afoul of IRS regulations. We are working with our attorneys to determine allowable service levels at this time but essentially believe that any mandated reductions in service levels can be off set by the substantial cash benefits of the syndication.)

The upper range numbers assume staff and the consultant directly find corporate investors who can use the tax credit, thereby saving costs that would otherwise be paid to a "broker/dealer." In addition, the figures assume that the debt on the project is reduced to a level where net operating income covers variable and fixed rate costs. Operating shortfalls created by the lower rent levels mandated by the syndication

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range from an average of \$40,000 per year to \$80,000 per year for the 40 percent and 100 percent low income set-aside, respectively. The debt on the project will have to be reduced accordingly, with a portion of the syndication proceeds (on the order of \$400,000--\$800,000) used to replace the debt financing. (Interest savings from the reduced loan amount could cover the cost of the subsidy for the meal program.)

Staff recommends pursuing the 100 percent low income option for the following reasons:

1. Assisting low income households is the mission of the Housing Authority. The introduction of market rate units at Riverview Plaza was done initially to create enough cash flow to cover project expenses and debts, thereby reducing the need for an even larger infusion of local subsidy into the project. In actuality, these "market rate" units are being heavily subsidized. The \$420 per month scheduled rent which we are calling market rate does not provide sufficient income to meet project expenses. The Agency, therefore, is contributing \$658,000 of tax increment funds annually to the project as well as several million of local funds up-front for construction. In addition, the \$420 rent is actually below current market rates for this type of senior housing. The \$420 per month rent is affordable to a household at 70 percent of median, assuming no one should pay more than 30 percent of his/her income for rent. Households earning more than 70 percent of median, and paying only \$420 for rent, are receiving an unnecessary benefit. The syndication, on the other hand, enables the project to assist 100 percent low income households, who are most in need, while raising approximately \$5 to \$6 million.

Low income elderly households have the least amount of options in finding suitable and affordable housing. The 1980 census indicated that 59 percent of low and moderate income elderly renters paid in excess of 30 percent of their incomes for rent. Almost half of these actually paid more than 50 percent.

Other than a few HUD assisted retirement residences, there are no other housing units comparable to Riverview Plaza that are affordable to these low income households. Comparable projects such as the Atrium and Rivers Edge charge \$700 - \$1,300 rent (includes meals). Although seniors whose incomes exceed 60 percent of median (\$14,220)

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will no longer be eligible to live at Riverview Plaza under the 100 percent low income occupancy requirement, other market rate housing options, although admittedly more limited, are available to them.

2. The Agency is dedicated to pursuing funding for low income housing subsidies, particularly in light of the considerable decline in federal funding for housing. Twenty-four thousand (24,000) very low income households in Sacramento currently pay more than 50 percent of their income for rent. Presently, there are only 12,000 assisted housing units in the County. Over the next five years, the City and County can expect to lose several thousand units of affordable low income housing because of privately owned federally subsidized housing converting to market rate units. The six million dollars to be raised from this syndication is money which is badly needed to preserve and develop our low income housing stock.

Other Issues

Beyond the question of the occupancy requirement for the project, several other issues need to be resolved and various tasks accomplished before the syndication can occur. These issues and tasks are enumerated below.

- o As noted above, the law authorizing the tax credit program contains language relating to the scope of services that a housing project can offer and still qualify for the tax credits. Staff, with the assistance of our attorneys, is analyzing the service package to ensure compliance with the tax law. Minor modifications may be necessary to stay within the intent of the law.
- o Subdivide commercial and residential space. Staff is exploring the possibility of legally subdividing the commercial from the residential portion of the building. The subdivision creates benefits for the Authority in the future at the time the residential portion of the project is sold back to the Authority. We expect the project to be sold back to the Authority in 10-12 years. Under this scenario, the Authority will retain ownership of the commercial (i.e., money-making) portion of the property throughout.
- o Develop the terms of a ground lease. The Authority will likely lease the land (or air rights) to the partnership.

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- o Transfer project ownership to FUND, INC., or another Agency affiliated nonprofit. This nonprofit will be the general partner of the limited partnership. The goal is to have the nonprofit as closely affiliated to the Agency as possible without creating problems that result in the prohibition of the use of Section 8 certificates on the project. The property transfer and creation of the limited partnership must occur before the certificate of occupancy is issued on the building.
- o Create the limited partnership that will own the project.
- o Obtain approval from HUD and CHFA on the changes in project ownership and loan structures.
- o Apply to the State for an allocation of tax credits.
- o Finalize the syndication structure.
- o Negotiate with potential investors.
- o Close the transaction. Staff hopes to complete the syndication in September. In any case, the syndication must be completed before year-end for purposes of state rules.

Staff will return to the Council with the proposed syndication structure prior to officially contacting investors.

FINANCIAL DATA

The projected out of pocket, up-front costs of accomplishing the syndication is \$100,000. This includes legal, financial consultant, appraisal update, and state allocating committee fee. Legal fees are mainly contingent upon successful completion of the syndication. These costs were previously approved by the Council on April 12, 1988.

ENVIRONMENTAL REVIEW

In accordance with the National Environmental Protection Act (NEPA), this is an exempt activity under Section 58.34(a)(9)(ii). The services affect only the social or economic environment.

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In accordance with the California Environmental Quality Act (CEQA), this action is categorically exempt under Section 15321(a)(2). The adoption of an administrative decision to fulfill an objective by a public agency is an exempt activity.

The proposed action is purely a financial transaction on a previously reviewed project.

POLICY IMPLICATIONS

Adoption of the staff recommendations will promote the Housing Authority's goals of providing housing affordable to low income households. Syndication provides the opportunity to increase the number of low and very low income households served at Riverview Plaza while raising a substantial amount of equity capital. These funds can be used to preserve existing public housing stock and promote the development of other low income housing projects. On the other hand, the syndication may modify aspects of the project's social service program. Most apparent is the modification to the required meals program. Other changes to the social service package should be more subtle and may, in fact, only be ministerial.

VOTE AND RECOMMENDATION OF COMMISSION

It is anticipated that at its special meeting of May 23, 1988, the Sacramento Housing and Redevelopment Commission will adopt a motion recommending approval of the attached resolution. In the event they fail to do so, you will be notified prior to your meeting of May 24, 1988.

RECOMMENDATION

Staff recommends that you adopt the attached resolution which:

(a) Authorizes and directs staff to proceed with the tax credit syndication of Riverview Plaza and change the occupancy requirements to 100 percent low income. This change will promote the Housing Authority's goal of creating housing affordable to very low income households and will raise approximately \$6 million in capital to be used to preserve and promote other low income housing projects;


(b) Authorizes staff to proceed with the subdivision of the commercial and residential space;

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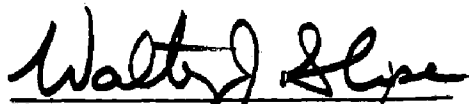
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- (c) Approves transfer of the project ownership to FUND INC., or another Agency affiliated nonprofit;
- (d) Approves creation of the limited partnership;
- (e) Authorizes staff to submit an allocation to the State Tax Credit Allocation Committee; and
- (f) Authorizes staff to take other steps as necessary to structure the syndication in preparation for contacting potential investors.

Respectfully submitted,


WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL:


WALTER J. SLUPE
City Manager

Contact Person: John Molloy
440-1360

2410WPP(16)

RESOLUTION NO.

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO

ON DATE OF

May 24, 1988

TAX CREDIT SYNDICATION - RIVERVIEW PLAZA

BE IT RESOLVED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO:

Section 1: The Executive Director is authorized to proceed with those steps necessary to accomplish the syndication of Riverview Plaza (in limited partnership form) to take advantage of available federal low-income housing tax credits.

Section 2: The Executive Director is authorized to submit an application for a tax credit allocation for Riverview Plaza to the Tax Credit Allocation Committee.

Section 3: The Executive Director is directed to investigate and determine the appropriate form of the entity to serve as the general partner of said limited partnership and is authorized to take all steps and sign all documents necessary to create the entity to serve as such general partner.

Section 4: The Executive Director is authorized to sign any and all documents to effectuate the transfer of all or any part of Riverview Plaza to said limited partnership whether by deed, lease or ground lease, and to assign loans, grants, and existing funding as necessary to carry out such transfer.

Section 5: The Executive Director is authorized to modify the existing finance structure for Riverview Plaza, subject to limitations of funding sources now approved for Riverview Plaza, for the purpose of generating the maximum tax credits without jeopardizing the project's security and financial integrity.

Section 6: The Executive Director is authorized to modify the Riverview Plaza Occupancy Requirements regarding the mix of very low-income, low-income, and moderate-income tenants, to maximize available low-income tax credits and to comply with additional occupancy requirements that are imposed as a result of the state and federal requirements under the tax credit program. The maximum tenant income under the project will now be 60 percent of median income as commonly used.

Section 7: The Executive Director is authorized to take those steps necessary to proceed with the subdivision of Riverview Plaza among the residential, commercial and parking components and to obtain approval of the City Planning Department and City Council on such subdivision.

Section 8: This resolution is effective immediately.

CHAIR

ATTEST:

SECRETARY

1100WPP(13)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

ATTACHMENT "A"

RIVERVIEW PLAZA SYNDICATION

Present Plan

Syndication
40%
Low Income

Syndication
100%
Low Income

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ATTACHMENT "B"

ANNUAL CAPITAL CONTRIBUTION

	<u>40% Low Income</u>		<u>100% Low Income</u>	
	<u>Net "A"</u>	<u>Net "B"</u>	<u>Net "A"</u>	<u>Net "B"</u>
Year 1	155,000	417,000	471,000	888,000
Year 2	366,500	628,000	855,000	1,271,000
Year 3	532,000	170,000	1,175,000	541,000
Year 4	346,000	436,000	733,000	823,000
Year 5	251,000	341,000	510,000	600,000
Year 6	39,000	339,000	298,000	598,000
Year 7	36,000	336,000	295,000	595,000
Year 8	218,000	218,000	391,000	391,000
TOTAL	<u>1,943,500</u>	<u>2,885,000</u>	<u>4,729,000</u>	<u>5,707,000</u>

Net "A": These figures are derived by taking the gross contribution minus the following items: \$100,000 legal, consultant, appraisal expenses; \$90,000 annually years 1-5 for the meal subsidy and \$300,000 each in years 6 and 7 to be applied to an Annuity for the meal subsidy for years 6-15; and a 10% fee to a broker/dealer.

Net "B": These figures are derived by taking the gross contribution minus the following items: \$100,000 legal and consultant expenses; reduction in the CHFA loan in an amount sufficient to allow net operating income to cover all variable and fixed costs. The meal subsidy will be covered by savings in interest payments to CHFA. No broker/dealer fee is assumed.