



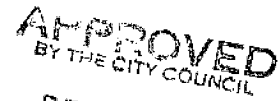
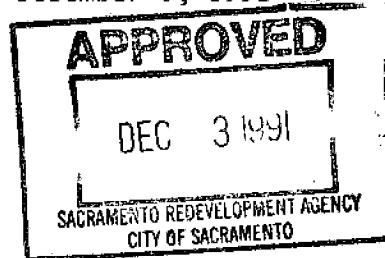
SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



611

December 3, 1991

Redevelopment Agency and
City of Sacramento
Sacramento, California



Honorable Members in Session:

DEC 3 1991

OFFICE OF THE
CITY CLERK

SUBJECT: Proposed Oak Park Boarded Homes Rehabilitation Program

LOCATION AND COUNCIL DISTRICT: Sites in Oak Park; District 5

SUMMARY

This report proposes the Oak Park Boarded Homes Rehabilitation Program in order to: 1) alleviate the blighting influence of vacant or boarded units in the Oak Park Redevelopment Area; 2) provide affordable home-ownership opportunities to low-income first-time homebuyers; and 3) increase neighborhood stability. Staff recommends adoption of the attached resolution approving the program.

VOTE AND RECOMMENDATION OF THE OAK PARK PROJECT AREA COMMITTEE (PAC)

At its August 7, 1991 meeting, the Oak Park PAC approved the staff recommendation to purchase boarded and vacant single-family homes in the Oak Park Redevelopment Project Area for rehabilitation and sale to first-time homebuyers with the following recommendations:

1. Use the program as a tool so that the Agency and PAC can more effectively target problem properties in the area.
2. Select properties through the City's Boarded and Vacant Property list, and through Agency Staff and the PAC.
3. Staff should target properties for acquisition which minimize the need for a tax increment subsidy (i.e. cost of acquisition and rehabilitation equal after-rehabilitation appraisal value and which will sell for \$85,000).

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The votes of the meeting of August 7, 1991 were as follows:

AYES: 12 (Art Ballard, William Coleman, Charles Craig, Harrison Crump, Patricia Dansby, Gayle DeForest, John Healy, Patrick Kennedy, Richard Lucero, Ray White, Fredrick Millar, Will Moore)

NOES: 0

ABSENT 3 (James Bozeman, Larry Lydon, William Morrissey)

Staff concurs with the above recommendations with the exception of the \$85,000 limit. Staff would like the flexibility to purchase units with an after-rehabilitation, fair-market value of up to \$100,000 per home. This cap would provide for increases in home prices over the three year life of the program.

VOTE AND RECOMMENDATION OF COMMISSION

At its meeting of November 20, 1991, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES: Amundson, Diepenbrock, Moose, Simon, Simpson, Yew, Strong

NOES: None

ABSENT: Cespedes, Pernell, Williams, Wooley

STAFF RECOMMENDATION

Staff recommends adoption of the attached resolution, which authorizes the Executive Director to: 1) establish the necessary guidelines and implement the Boarded Homes Rehabilitation Program as described in this report; 2) take all actions necessary, including litigation to quiet title, to purchase up to thirty (30) vacant or boarded properties in Oak Park; 3) select an architect for rehabilitation design; 4) solicit, approve and enter into contracts with licensed contractors to rehabilitate purchased homes through a public sealed bid process; 5) make available loans to the homebuyers for closing costs; 6) amend the Agency budget by transferring \$950,000 from the Oak Park Tax Increment Housing Development Fund to the Boarded Homes Rehabilitation Program to fund all necessary costs related to the selection, purchase, rehabilitation and sale of property; and 7) establish

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a revolving pool with the funds after homes are sold to homebuyers to purchase other vacant or boarded properties.

BACKGROUND

One of the goals for the Oak Park Redevelopment Project Area is the provision of affordable housing through a number of different methods and programs. To achieve this goal, the Agency has implemented a number of activities including: 1) financial assistance for the construction of eight units of self help ("sweat equity") new housing for ownership by low-income families; 2) development of 25-30 new market rate housing units for ownership by moderate income families; 3) acquisition and renovation of 5 single-family homes for the Agency's conventional public housing rental stock; 4) management of 234 units of various types of housing including multi-family apartments, townhouses and scattered single-family units; and 5) renovation/construction of 3 homes in cooperation with both Sacramento Neighborhood Housing Services and Habitat for Humanity.

To complement these existing activities, and to address the blighting influence of vacant or boarded units, staff is proposing a new program called the Boarded Homes Rehabilitation (BHR) Program. Under this program the Agency proposes to acquire and rehabilitate existing vacant or boarded homes to sell to qualified low-income families.

The three primary objectives of this program are to: 1) decrease the number of dilapidated single-family homes in the Oak Park community and the resultant blight; 2) provide homeownership opportunities to low-income families; and 3) increase neighborhood stability. The first objective is met primarily through the physical rehabilitation of the units under the program and the provision of affordable homeownership opportunities. A large number of units in Oak Park are owned by absentee landlords who are not directly involved in the management or maintenance of their units. Since owner-occupied homes are more likely to be maintained than renter-occupied investor-owned units, increasing the number of owner-occupied single-family units will result in a higher number of well maintained units.

The second objective is met by: 1) making available a grant from the Federal Home Loan Bank for up to 15% of the purchase price; 2) offering an Agency loan to cover up to 5% of the closing costs; and 3) targeting properties that will have a after-rehabilitation fair market value of \$85,000. The third objective is met by placing incentives in the mortgage to encourage long-term resident occupancy.

Vacant or boarded homes are not unique to Oak Park; many other neighborhoods are similarly plagued. As of January 1991, the City of Sacramento's Building Department (Building Inspections) listed a total of 88 boarded residential properties in the City limits.

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However, because many property owners secure their buildings without the City's involvement, staff has found that this list represents only about half of the total number of boarded homes in the City. A recent informal survey in Oak Park revealed over 45 boarded single-family homes. With the success of the BHR Program, it may serve as a model for the Agency to duplicate in other target areas.

Acquisition, Rehabilitation and Sale Program Description

Implementation of this program will commence with the acquisition and rehabilitation of up to ten housing units. If this initial phase is successful, the Agency will repeat the process with the eventual goal of acquiring and reselling 30 homes over a period of 3 years. The Agency will purchase units listed on the open market or offered to the Agency by willing sellers. In addition, the Agency will target units for acquisition through Building Inspection's listing of vacant and boarded buildings. The Agency will use this list to contact owners who may be willing to sell their units. Foreclosed properties held by private lenders and the Department of Housing and Urban Development will also be pursued.

In case the Agency encounters title defects when purchasing vacant or boarded properties, staff requests authorization for the Executive Director to file quiet title actions in order to obtain the required title insurance¹. The Agency has previously needed this authorization to quiet title for the Land Banking Program in the Oak Park Redevelopment Project Area.

Purchase Criteria

The Agency will purchase vacant or boarded single-family units for which the target acquisition and after rehabilitation costs approximate \$85,000. The Agency's housing rehabilitation specialists will inspect all homes targeted for acquisition prior to purchase. Staff will estimate the approximate cost to perform the required work and determine if the acquisition and rehabilitation costs meet the \$85,000 criteria. If unforeseen costs are incurred, due to items such as hidden defects which increase the cost of rehabilitation, staff is authorized to exceed the \$85,000 target cost to complete the home. In addition, because market prices may rise over the life of the program, thereby increasing acquisition costs, staff is authorized to purchase homes that may have an after-rehabilitation (fair-market) value of up to \$100,000. This cap provides for flexibility within the life of the program, but is not a targeted cost. The intent of the program is to provide these homes at affordable prices to qualified low-income families.

¹ Title defects result in an inability to obtain title insurance. Such defects can arise from failure to record or properly record previous deed transactions resulting in a "gap" in title.

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The Agency has experience with the purchase of housing units requiring rehabilitation for its Conventional Public Housing Development Program. A similar process of acquiring existing units and rehabilitating them will be used to provide housing units for sale to potential homeowners.

Staff feel that the momentum needed to stabilize neighborhoods will be more successful if the Agency's acquisition of properties occurs near other stable areas that exhibit a level of homeownership and/or well maintained homes. Therefore, first priority purchases will be made on blocks where ownership levels are greater than 50% or where at least 2-3 other Agency-owned properties are located.

Contractor Selection Process

Once a home is purchased, staff will inspect the home and may, if necessary, contract with an architect to develop the specifications for rehabilitation. A bid package will then be created and openly advertised in local newspapers and trade association offices. Through a public sealed bid process, contractors will be able to submit rehabilitation bids on individual homes or a group of homes depending on the bid package. (If several homes are purchased at or around the same time, the homes may be included in one bid package, rather than individually.) Approximately two weeks after advertising, a pre-bid conference will be held at the site(s) for the contractors' inspection of necessary rehabilitation work. Contractors will then have up to two weeks to submit their bids. Staff will review the proposals and award the contract to the lowest qualified bidder.

Marketing to Potential Homebuyers

As mentioned earlier in this report, one of the principal purposes of the program is to assist low-income first-time homebuyers purchase their own home. Marketing will commence while the rehabilitation work is being completed. The following groups will be targeted:

- o Low-income (up to 80% of the County median income) households;
- o Employed residents of the Agency conventional Housing and Section 8 Programs; and
- o Current Oak Park residents

In order to insure that there is a sufficient pool of qualified homebuyers, an extensive marketing strategy is being developed to include:

- o newspaper articles;
- o radio and television coverage;

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- o brochure sent to all first-time homebuyers, who request information;
- o neighborhood newsletters and Agency publications;
- o special notices and presentation to the Community Development Block Grant and Redevelopment Project Area Committees, and
- o individual invitations to those currently in assisted housing.

All interested persons will be required to attend a series of homebuyers educational seminars sponsored by the Agency's Home Loan Counseling Center. Additionally, special seminars will be held for those persons identified as potentially eligible for homeownership who are currently living in Conventional Public Housing or receiving Section 8 assistance.

A pool of qualified borrowers will be established and available for the selection of a home prior to completion of rehabilitation. Upon completion of the rehabilitation work, the homes will be sold at fair-market value to individuals in the pool of qualified applicants.

Homebuyer Financing

The program will provide financing to the homeowner as follows:

- 1) The homebuyer will deposit in escrow a cash down payment of 5% of the total sales price.
- 2) A first deed of trust for 80% of the purchase price will be provided by Citibank at .125% (1/8%) below the then current market interest rate for a fixed rate 30 year loan. The homebuyer will be required to complete the Community Home Buyer's Seminar provided by the Agency's Home Loan Counseling Center. Once the homebuyer has completed the seminar, they may qualify for "relaxed underwriting". Citibank, under a special affordable housing program, has committed \$2,040,000 for financing the first deeds of trusts for up to thirty (30) homes;
- 3) A zero percent (0%) interest rate deferred second mortgage for 15% of the purchase price will be provided by a grant from the Federal Home Loan Bank Board Affordable Housing Program (AHP). Citibank has successfully competed and was awarded these AHP funds on behalf of the Agency's program. This loan is forgivable if the buyer remains in the home for 10 years. The purpose of this loan is to reduce the first mortgage payment to an affordable level. The Federal Home Loan Bank has agreed to provide a total of \$375,000 for this purpose;
- 4) A zero percent (0%) interest rate deferred third mortgage will be loaned by the Agency to cover the cash equivalency of the closing costs (up to a maximum of 5% of the purchase price). The loan shall not exceed a term of 30 years and shall be repaid if the property is sold, transferred or refinanced

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at any time during the term of the loan. These funds will be provided through Oak Park Tax Increment Funds; and

- 5) A Mortgage Credit Certificate which increases the families spendable income by reducing their federal income tax liability and helps the applicant qualify.

An example of how a borrower may qualify is attached as Exhibit 1.

Resale Restriction

To ensure that the properties are retained as affordable units for at least 10 years, the grant deed restricts the resale of the homes for 10 years to low/moderate income homebuyers.

PROPOSED PROJECT SCHEDULE

FIRST PHASE (1-10 Homes)

Begin Acquisition Process	December 1991
Develop Marketing Strategy	December 1991
Solicitation and Approval of Rehabilitation Bids	February 1992
Initiation of Rehabilitation Work	March 1992
Homebuyer Purchase	June 1992

FINANCIAL CONSIDERATIONS

Nine hundred and fifty thousand dollars (\$950,000) is available in Oak Park Tax Increment funds in the housing development cost center. These funds will be transferred to a cost center specific for this project entitled Boarded Homes Rehabilitation (BHR) Program. These BHR funds will finance the selection, acquisition, and rehabilitation of up to ten (10) properties at a time. These BHR funds will also provide for a 0% interest rate deferred payment loan to cover closing costs. This loan will not exceed a term of 30 years and will be repaid if the property is sold, transferred or refinanced at any time during the term of the loan.

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Once a homeowner secures mortgage financing, the funds used to acquire and rehabilitate the home will automatically be revolved back to the BHR cost center. If the homeowner sells, transfers, or refinances the property by any means within the three year life of the BHR Program, the loan for closing costs will be repaid and returned to the BHR cost center. Anytime after the three years the loan funds (when repaid) will revolve back to the Oak Park Housing Development cost center.

If the acquisition and rehabilitation costs should exceed the after-rehabilitation appraised value, the cost of the unit will be subsidized so that it may be sold at fair market value. This subsidy will limit the amount of funds available for future purchases.

ENVIRONMENTAL REVIEW

The proposed action is in furtherance of the Oak Park Redevelopment Plan and was deemed approved at the time of Plan adoption. Per CEQA Guidelines Sections 15180, 15162 and 15163, no further environmental documentation is required. NEPA does not apply.

POLICY CONSIDERATIONS

The above recommended actions are consistent with Agency policy to increase housing stock and provide homeownership opportunities in Oak Park. The action is in compliance with the goals of the Oak Park Redevelopment Plan, the Oak Park Five Year Revitalization Strategy, and the Oak Park Housing Marketing Study.

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M/WBE

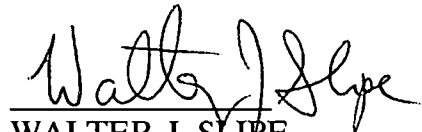
MBE/WBE contractors will be solicited to respond as contractors for the program to the Agency's public sealed bid process through advertisements in the Sacramento Union, The Observer, El Hispano, Nichi Bei Times and notices at the Builders Trade Council. All general building contractors on SHRA's Certified MBE/WBE List will be sent invitations and will be encouraged to submit bid proposals. The MBE/WBE Coordinator will attend all pre-bid meetings.

Respectfully submitted by,



JOHN E. MOLLOY
Executive Director

TRANSMITTAL APPROVED BY:


WALTER J. SLIPE
City Manager

For Council Meeting of:
December 3, 1991

Contact Person: Leslie Fritzsche, 440-1315

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RESOLUTION NO. 91-097

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF _____

BOARDED HOMES REHABILITATION PROGRAM IN THE OAK PARK REDEVELOPMENT PROJECT AREA

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

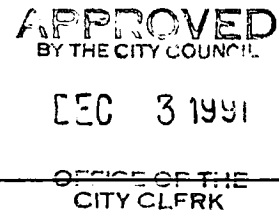
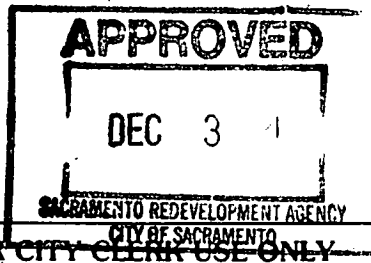
Section 1: The Executive Director is authorized to take all actions necessary to purchase and rehabilitate up to thirty (30) vacant or boarded single-family residential properties in the Oak Park Redevelopment Project Area ("Program") and to take all actions necessary to obtain clear title of such properties, including quiet title litigation.

Section 2: The Executive Director is authorized to select, negotiate with and contract with and use an architect for rehabilitation design for the Program properties.

Section 3: The Executive Director is authorized to solicit licensed private or non-profit general building contractors through a public sealed bid process to rehabilitate the homes purchased as part of the Boarded Homes Rehabilitation Program, select the lowest, responsive and responsible bidders, and enter into contracts with the selected contractors in a form approved by Agency Counsel.

Section 4: The Executive Director is authorized to sell the rehabilitated homes to potential buyers whose income does not exceed 80% of the Sacramento County median and who have completed the Agency's or Agency sponsored Home Buyer Educational Seminars.

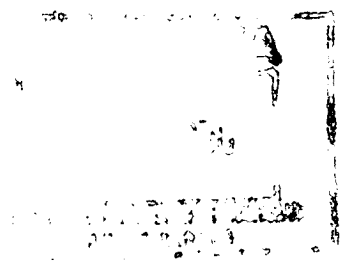
Section 5: The Executive Director is authorized to select only those properties for which the total cost including acquisition and rehabilitation shall be reasonably estimated not to exceed \$100,000.



RESOLUTION NO.: _____

DATE ADOPTED: _____

100
100
100



Section 6: The Executive Director is authorized to sell the homes at their after-rehabilitated appraised (fair-market) value.

Section 7: The Executive Director is authorized to extend zero percent (0%) purchase money financing, not to exceed 5% of the purchase price of the home, to be used only for closing costs. Each such loan shall be secured by a third deed of trust on the real property. The term of the loan shall not exceed 30 years and shall be repaid if the property is sold, refinanced or transferred at any time during the term of the loan.

Section 8: The Executive Director is authorized to amend the Agency budget by transferring \$950,000 from the Oak Park Tax Increment Housing Development Fund to the Boarded Homes Rehabilitation Program. Once these homes are sold to home buyers, these funds are to be returned to the funds in the Oak Park Project Area for this Program to be used to select, purchase and rehabilitate other boarded or vacant properties.

CHAIR

ATTEST:

SECRETARY

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

SAMPLE
PURCHASE AND FINANCE OF A HOME
THROUGH THE BOARDED HOMES REHABILITATION (BHR) PROGRAM

Summary of the Process

- Agency will purchase boarded/vacant property and rehabilitate: (the intent is to include the home buyer as soon as possible in the process).
- Purchase and Rehabilitation Cost = \$85,000
- Buyer is selected and attends educational seminars.
- Buyer purchases home for \$85,000 and pays a minimum down payment of \$4,250.
- Buyer is eligible for up to \$4,250 zero interest deferred payment loan to cover closing costs from the BHR Program Funds.
- Buyer is eligible for deferred payment second for \$12,750 from AHP funds.
- Buyer applies to Citibank for conventional 30 year fixed rate mortgage with relaxed underwriting. Citibank is offering their then current rate reduced by 1/8%.
- Loan closes and buyer moves in.
- Buyer attends post closing seminars.

Total Cost to Purchase

Sales Price	\$85,000.00
Closing Cost	<u>4,000.00</u>
Total	\$89,000.00

Financing Structure

Total Cost to Purchase	\$89,000.00	
Deferred Payment Third	<u>4,000.00</u>	(Agency)
	\$85,000.00	
Minimum Down Payment	4,250.00	(Buyer)
Deferred Payment Second	<u>12,750.00</u>	(Citibank AHP)
Loan Amount	\$68,000.00	(Citibank)

Monthly Housing Payment

Citibank Conventional Loan	\$547.00	(Principal & Interest)
AHP Deferred Payment Second	0	
Agency Deferred Payment Third	0	
Taxes	89.00	
Hazardous Insurance	20.00	
Private Mortgage Insurance	<u>34.00</u>	
Total Monthly Payment	\$690.00	

Minimum Qualifying Income: \$25,091.00

(This income is based on a 33/38² ratio and is 63% of the median income for a family of four.)

Additional Subsidies

1. Mortgage Credit Certificate increases the ability to make payments because of reduced federal income taxes and will be available to each borrower. This could effectively reduce the interest rate by as much as 20%.

2. Agency subsidy, if necessary, to writedown purchase price to fair-market value if unforeseen rehabilitation costs occur.

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² The top portion of this ratio represents the percentage that the housing payment may be in relation to gross income. The bottom portion of the ration represents the percentage of total debt allowed in relation to gross income.