



Building Industry Association
Of Superior California, Inc.
2211 Royale Road
Sacramento, CA 95815
(916) 925-2772

November 13, 1984

TO: Members of the Sacramento City Council
FROM: The Building Industry Association
RE: Changes to the Mortgage Revenue Program for Multifamily

The Building Industry Association has carefully reviewed the proposal submitted by the Sacramento Housing and Redevelopment Commission. After discussing the Mortgage Revenue Bond Program for Multifamily with our local congressmen and our legislative staff in Washington D.C. we recognize the importance of strengthening the program locally. It is our understanding that OMB is currently conducting an audit of local programs to measure the benefit to lower income people. There is concern in the Congress that the program does not adequately address the needs for lower income housing and as a result, our industry fears that the program may be in danger. We feel that Mr. Plescia and the Commission have acted responsibly in attempting to adjust the program so that it addresses the problems with regard to lower income housing.

The Building Industry objects to one of the recommendations within this package. We believe that the proposed Administration Fee increase is unnecessary and inappropriate. The use of an Administration Fee to finance a building program for low and below median income projects is a poor mechanism. As a matter of public policy, financing a program other than administrative expense with administration fees is irresponsible and sets a dangerous precedent. This would open up an opportunity for local governments to begin levying any number of fees via the "administrative fee". We urge you to vote against this provision in the recommendations before you tonight.

SERVING THE RENTAL INDUSTRY IN THE SACRAMENTO REGION SINCE 1943
November 13, 1984

Sacramento City Council
Sacramento, Ca.

Honorable Members in Session

SUBJECT: Proposed Policy Changes to Multifamily
and Single Family Bond Programs

The availability of low interest bond money is perhaps the only answer to creating affordable housing.

However, consideration of all residents in rental housing should be of prime importance. Therefore, following are comments for your review:

- ° Increase of Administrative Fee from \$1,000 to \$3,500 seems unnecessary and excessive. The estimated surplus of \$280,000 is not well defined as to intended usage.
We recommend no increase in present fee.
- ° Set aside units for 80% of median income of 13% of units, and 7% of the units for 50% of median income at Section 8 Fair Market Rents.

Our industry is against any form of rent control and the 7% of allocated 20% is rent control. Loss of rental income through mandatory lower rents causes an increased burden on other residents, since they will pick up the difference in their rents.

In the event the recommendation is for a lower number of set aside units for Section 8, it is suggested a speedy mechanism be in place for the units to be put back on the market after a good faith effort by the owner to qualify and select residents. The estimate from staff is that after 90 days effort there would be an additional 5 to 6 weeks before the units would be released.

In summary, we ask you to retain the administrative fee at \$1,000 and to keep the 20% of 80% of the median income at that rent range. Lack of adequate income results only in fewer services and other cost cutbacks which directly affect the property, the renters and the community.

Thank you for your consideration.

Sincerely,

Betty Gwiazdon
Betty Gwiazdon, CAE
Executive Vice President



President
Bob Carlson
1st Vice President
Alice Elkins
2nd Vice President
Marilyn MacBride
Secretary-Treasurer
Sam Fuller

Executive Vice President
Betty Gwiazdon, CAE

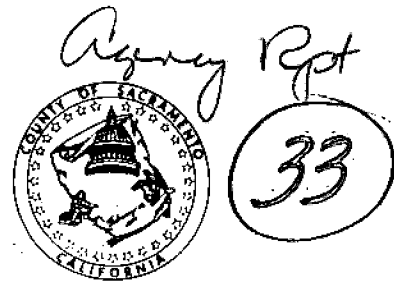
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Sacramento County
Taxpayers League



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



October 31, 1984

CITY MANAGER'S OFFICE
RECEIVED
OCT 31 1984

APPROVED
BY THE CITY COUNCIL

11/13/84

OFFICE OF THE
CITY CLERK

Sacramento City Council
Sacramento, California

Honorable Members in Session

SUBJECT: Issues Relating to Collaborative City and County of
Sacramento Multifamily and Single Family Mortgage
Revenue (MR) Bond Programs

RECEIVED
CITY CLERK'S OFFICE
CITY OF SACRAMENTO
NOV 2 3 47 PM '84

SUMMARY

This report regards the collaborative City and County of Sacramento Multifamily Rental Housing and Single Family Residential Revenue Bond Programs. These programs are administered by the Sacramento Housing and Redevelopment Agency (SHRA) on behalf of the City and County of Sacramento. The report clarifies various policy matters regarding issuing collaborative versus individual multifamily bonds, and the role and sole use of the Agency's selected bond counsel and underwriting firms.

In addition, staff is recommending: 1) providing inducement resolutions on a continuous basis and structuring collaborative multifamily issues up to four times a year, as demand requires. The single family program will continue to be organized collaboratively as State allocations become available; 2) continued use of the underwriting team selected by the Board and Council as underwriters for Sacramento projects; 3) adoption of an administrative fee to be charged to developers participating in either the single or multifamily bond programs. A 35 basis point up-front fee is proposed (10 at time of application and 25 just prior to sale of bonds), as well as a 10 basis point annual fee. (These fees would be utilized by the Agency to offset administrative costs and to benefit low and moderate income housing programs of the City and County of Sacramento); and, 4) amendment of affordable rent requirements, found in the City's Ordinance with respect to the multifamily bond program and inclusion of identical language in the County's multifamily bond program.

11-13-84
All Districts

MAILING ADDRESS: P.O. BOX 1834, Sacramento, CA 95809
OFFICE LOCATION: 630 I Street, Sacramento, CA 95814 (916) 444-9210

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Sacramento City Council

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BACKGROUND

There are several policy issues, submitted below, for the Council's and Board's consideration and approval. Staff is requesting clarification of two existing policies as well as approval of two new policies. The existing policies address: 1) collaborative versus individual issues, and 2) sole use of the Agency's underwriting team. The new policy issues address: 1) imposition of an administrative fee (single and multifamily bond program); and, 2) adoption of affordable rent language (multifamily bond program).

Collaborative Issues

On three separate occasions, at the direction of the Governing Boards, Agency staff has put together single family bond issues under a collaborative program, whereby requests from multiple developers are pooled under one issue. This policy was continued under the multifamily program. Staff continues to support the collaborative approach for the reasons outlined below:

1. Economy of scale can be achieved by pooling developer financing needs, resulting in a better market rate and reduced overall administrative costs. The collaborative issue approach assists smaller developers, whose financing needs alone would not make a bond sale economically feasible. By participating in a collaborative bond program, developers may be able to build more units than they might otherwise be able to build under conventional financing. In some cases developers would be unable to build rental housing without tax-exempt financing. Generally, issues under \$4 or \$5 million are not economically feasible because MR bonds are front end loaded with substantial administrative and cost of issuance fees and reserve fund requirements. Under the 1984 multifamily program, for example, 12 of the 15 developers initially participating in the program had financing needs under \$4.3 million. Together, the pooled financing came to approximately \$50 million.
2. Collaborative issues are administratively manageable by Agency staff. If individual issues were pursued, staff would have to be involved in several different program structures simultaneously. It could become extremely difficult to retain the level of Agency involvement and control as achieved under the collaborative program, because of the voluminous amount of legal documents, developer coordination and contact with underwriters and other program functionaries required in issuing these bonds. Staff believes that active agency involvement is necessary to ensure legal requirements of the program are understood,

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so that proper program follow-up and monitoring can be achieved and the public's interest aggressively represented in regards to income requirements, affordable rent and other mandates. It has been our experience with previous issues that this follow-up and continued program involvement is considerable.

Additionally, a policy supporting MRBs for individual developers could become cumbersome to coordinate from a bond marketing perspective. The Agency does not want two or three Sacramento issues competing with each other in the market at the same time. This problem is not likely to occur under a collaborative issue. Furthermore, coordinating Agency bond sales will become an even greater concern after the redevelopment plans currently under consideration are adopted and the Agency becomes more active in the tax exempt bond market.

Although the collaborative approach may cause a minor hardship on some developers who are on a different time line than the Agency's, staff is making every attempt to accommodate development demand. Since we recognize that there are instances where adverse financial consequences would result due to project scheduling constraints under an annual or semi-annual collaborative type issue, we recommend that a quarterly 'window' be established through which all projects interested in funding that quarter be brought. This would preserve many of the assets of the collaborative approach but would greatly decrease the 'wait' time for any single issuer. Given our Commission, Board and Council scheduling constraints, we probably could not proceed much faster anyway. (The quarterly program, combined with an active redevelopment financing program in 1985, will require hiring an additional financial analyst. This position will be dealt with in context of the 1985 budget.) It should also be stated that the need for individual issues should be somewhat lessened since we are also proposing that Inducement Resolutions be made available to developers upon request (see Attachment 1). These resolutions enable developers to recoup their costs under a bond program. In the past, these resolutions could only be applied when a bond program was being organized, making it difficult for developers to afford and coordinate.

In cases where the developer and Agency staff cannot concur on whether the individual financing of a project is justified, the developer can appeal his/her case to the Sacramento Housing and Redevelopment Commission, and Board of Supervisors or City Council.

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Agency's Underwriting Team

The second policy issue pertains to sole use of the underwriting team under contract by the Agency. On occasion, developers who approach the Agency for tax exempt financing have an underwriting team in mind, with whom they want the Agency to work with in structuring the deal. It has been our policy that the developer work with the Agency's underwriting team.

On some occasions issues have been co-managed, whereby two or three underwriters work on the issue. (Co-managing is beneficial only when another underwriting firm has a special relationship with a lending institution or can increase bond marketability above and beyond what the Agency's underwriting team can offer. Otherwise, there is no reason to co-manage issues.) Co-managing should only be allowed at the Agency's or our underwriter's request; so long as our selected underwriter is the lead firm and is providing us advice on the issue structure, timing of sale, etc. In summary, continuation of the policy regarding use of a single underwriting team is recommended because:

1. It enables continuity and consistency during and between issues. Additionally, because there is a single team, there tends to be more consistency in the way deals are structured and in the legal documents. Furthermore, a single team approach reduces confusion with follow-up questions that often arise from developers after the issue is sold. Finally, underwriting firms brought in at the developers request have little stake or interest in Sacramento, or the project, once the issue is sold.
2. It is consistent with the competitive bid process and minimizes staff's need to spend time continually reviewing the experience and performance of the various underwriting firms who approach the Agency in consortium with a developer. Since the Agency competitively bids the underwriting of its mortgage revenue bond programs every two or three years, all underwriting firms who choose to have the opportunity to compete for the Agency's contract may do so. Proposals are carefully reviewed by a joint City/County panel and the most qualified firm is selected.
3. Permitting the use of other underwriting firms, when the one selected by the Agency can provide the same service, is inconsistent with the RFP process. Also, the cost efficiencies achieved through the RFP process, in terms of administrative

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review and screening applicants, will be lost if staff must continually review underwriter qualifications throughout the year.

New Policy Issues

The Staff is also requesting approval of two new policy guidelines for the Mortgage Revenue Bond programs: 1) an Agency administrative fee to apply to both the Single and Multifamily bond programs; and, 2) "affordable rent" language for the multifamily bond program..

Administrative Fee

Currently, developers pay a 1/10 of 1% (10 basis point) non-refundable application fee at the time of Mortgage Revenue Bond program application submittal for the Multifamily program. (An application fee has not been applied to previous Single Family bond programs, but is recommended for future single family bond programs.) This fee is retained by the Agency to pay the cost of implementing the program, i.e., travel, public notice, studies, staff, etc. In the past, we have kept the administrative fee structure to an absolute minimum. As the issues have matured, however, we have found a need for continued monitoring and evaluation as well as costs incurred in new program development. Additionally, a fee increase is needed to cover the costs for an additional staff person to help coordinate quarterly multifamily bond programs and assist in the redevelopment financings in 1985. Because we feel strongly that this program should be self-sufficient, and because even with these fees, developers are saving a considerable amount of money, since conventional financing is 3 - 4% above bond financing, staff now proposes that a one time fee of 35 basis points be charged to developers participating in the program. The 35 basis points would be comprised of 10 basis points at application and 25 basis points just prior to bond sale. Additionally, up to 10 basis points would be charged to the program annually. Attachment 2 outlines typical revenues and expenses under this program. The initial 10 basis points would be non-refundable. The 25 basis points will be refundable if bonds are not sold, so long as all Agency expenses can be recouped. The 10 annual points would be received, of course, only if bonds are sold and would be taken from bond proceeds.

Funds raised from these fees will be used to pay the costs of the bond program and also to subsidize certain Agency housing related expenses, including rehabilitation, new construction and maintenance of low/moderate income housing, making funds available for land writedowns, predevelopment housing related costs, maintenance of public housing and locally funded rent subsidy or voucher programs.

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(Each proposed use of the bond function would have to be individually approved by the Board and Council.) The establishment of a housing fund through collection of developer fees from bond programs is being done by numerous other jurisdictions (see Attachment 3).

Affordable Rent

The second policy issue regards "affordable rent" language for inclusion in subsequent multifamily bond issues. In 1983, State Law (AB 655) required that County MRB programs contain a requirement that rent for low income residents not exceed "30 percent of 80 percent of median income", or approximately \$544 a month for an average family. This "affordable rent" requirement was deleted from State law in September 1983. Therefore, the County program currently has no affordable rent requirement. The affordable rent language of AB 655, however, was adopted into City Ordinance in 1983, and remains in that ordinance to date.

The Federal law requires that 20% of the units be occupied by low and moderate income individuals, however, it does not address the issue of affordability. The bond covenants only require that the units must be occupied by a family earning 80% or less of the median income. Landlords may or may not have to adjust rents below market rate to achieve this 20% occupancy requirement. It could occur that tenants spend over 30% of their income on rent. Under the 1983 bond program, the maximum allowable rent is \$544* a month. This maximum rent is well above the current market rent which averages:

\$200 - \$300 mo. for a 0 bedroom
\$290 - \$375 mo. for a 1 bedroom and
\$350 - \$450 mo. for a 2 bedroom
\$375 - \$550 mo. for a 3 bedroom

Staff proposes that sixty-five percent of the required low income units (i.e., thirteen percent of the units in the project) be subject to a maximum affordable rent of 30% of 80% of median adjusted for family size. This rent is still well above market. Individuals filling those units must earn under 80% of median, as established by HUD for the Section 8 program. The other thirty-five percent of the low income units (i.e., seven percent of the units in the project) should be offered at rents not to exceed Section 8 Fair

*(Market Rent figures were obtained through an informal survey of area developers participating in past, present and future bond programs, and various lenders and realtors. These rents are supported through the Market Study Report done by The Land Economics Group for the Agency.)

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Market Rents for existing units, less utilities, and can only be offered to tenants earning under 50% of median income. (See Attachment 4 for income guidelines.) The seven percent figure would make the bond financed units comparable to the rental market-place as a whole in this regard. These FMRs are reviewed annually by HUD and adjusted according to changes in the market. Additionally, Section 8 certificate holders should be given priority for the FMR units. The proposed rental structure is shown below:

<u>Number Units</u>	<u>Thirteen Percent of the Total Units at 30% of 80%</u>	<u>Seven Percent of the Total Units at Section 8 FMR's (Without Utilities)</u>
Efficiency	\$382	\$250
1	437	\$300
2	491	360
3	546	450

The Section 8 fair market rent is recommended to increase housing opportunities for low income individuals, particularly Section 8 certificate holders. Affordable housing criteria is needed as demonstrated by the following statistics:

- . Statistics from the bond program (two projects) indicate that the average income of the low income tenants is between 62% and 68% of median, and that they can expect to pay an average of 32% of their income in rent, in one project, and 52% in another project.
- . The 1980 Census indicates that 65% of City and 71% of County households earning under \$10,000 (or 50% of median) paid over 30% of their income on rent, and 34% (City) and 43% (County) paid over 50% of their income on rent. For those households earning between \$10,000 and \$15,000 per year, 21% (City) and 31% (County) households pay more than 30% of their income in rent.
- . Vacancy rates for Section 8 units are much lower than vacancy rates for non-Section 8 units, indicating that low cost housing is a much desired commodity in Sacramento.
- . Demand for low cost housing is also measured by the fact that Tenant Selection has over 15,000 applications to Section 8, and only 4,000 certificates.
- . A study done for the Agency in 1983 indicates there is little Section 8 housing available in the County. Over

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half of the bond program development is occurring in the County. Making these units available to Section 8 will increase the choice for Section 8 tenants.

Although true that the rent restrictions impose a cost on developers by limiting the income that can be earned on 20% of their units; developers are receiving a loan subsidy by virtue of the lower income costs on the bonds. Loans under the program are generally 3-4% below conventional rates.

The effect of this rent language may serve to make participation in the bond program unworkable for a limited number of developers. It could also serve to decrease the size of units in order for developers to lower project costs and make the program feasible. Additionally, it could increase the amount of equity contribution required by developers or somewhat inflate the market rents charged on non-low income units in the project. Whether such rent inflation occurs would depend on the overall supply and demand for rental housing. However, using the Section 8 Fair Market Rent criteria will ensure the low income units are affordable to low income tenants (those under 50% of median income), and also provide more housing opportunities to Section 8 certificate holders. Although rents in Sacramento are relatively low, as compared to other parts of the state, we are finding that bond financed projects tend to be at the upper end of those rents, with one bedroom unit rents proposed at \$360 - \$400 for 1985, making those units less affordable to low income individuals.

Other jurisdictions, concerned about the affordability of bond financed projects, have imposed rent restrictions on the 20% reserved low income units. Sonoma County and the City of Santa Rosa, for example, require that all the low income units be affordable to Section 8 (or FMRs less utilities). Modesto requires that half the units be affordable to Section 8.

We do recognize, however, that even though a variety of data sources indicate a substantial need for, and shortage of, units affordable to 50% of median income range families, the possibility that the owners will not be able to locate and rent seven percent of their units to these families within a reasonable period of time does exist. For this reason, we are suggesting that, following a 90 day period from date of first availability of the units for occupancy, and upon demonstration of a 'good faith effort' on the part of the landlords/owners to locate such persons/families, if no renters in the 50% of median income or less category can be found, that the owners/landlords be allowed to rent the units to those earning up to 80% of median income. (However, the Section 8 Fair Market Rent requirement would not be waived.) A 'good faith effort' shall be demonstrated by such things as advertising, listing of

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units available with the Section 8 office, keeping a record of applicants, etc. Notification of waiver will be in writing, from Sacramento Housing and Redevelopment Agency.

It is also significant to note that the City and County of Sacramento are taking steps through density bonus programs to help make these housing projects workable. Additionally, a program to make available limited Community Development Block Grant or tax increment funds to proposed projects in target areas is being explored.

FINANCIAL DATA

Adoption of the up-front administration fee could generate from \$35,000 (\$10 million issue) to \$350,000 (\$100 million issue). (Issue size depends on the number of developers participating and the dollar amount requested.)

POLICY IMPLICATIONS

The recommendations in this report are consistent with the Board's policy to provide affordable housing through the bond program subsidy. The proposed changes are intended to refine the County's Mortgage Revenue Bond policy and provide a method to make this service self-supporting, as well as create a fund that can be used to subsidize housing related expenditures. The maximum affordable rent requirements will better ensure the goals of making the units affordable to low income tenants.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of October 15, 1984, the Sacramento Housing and Redevelopment Commission adopted a motion recommending the above actions. The votes were as follows:

AYES: Angelides, Luttrell, Pettit, Sanchez, Walton, Teramoto

NOES: Amundson, Moose

ABSTAIN: Lopez

ABSENT: Ose



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RECOMMENDATION

Staff requests the Sacramento City Council: 1) clarify various policy matters regarding collaborative issues and use of the Agency's underwriting team. In addition, staff recommends the Council 1) adopt the proposed up-front fee of 35 basis points to apply to both the single and multifamily bond program along with the 10 basis point ongoing administrative fee; and, 2) adopt the maximum "affordable rent" criteria (multifamily bond program only), as set forth in this report. These new policies are to apply to the bond projects induced after August 30, 1984. Changes to the affordable rent language require an ordinance amendment. The Council is therefore requested to direct the City Clerk to publish notice of the ordinance amendment and to adopt the ordinance amendment the following week.

Respectfully submitted,



ANDREW J. PLESCIA
Acting Executive Director

TRANSMITTAL TO COUNCIL



WALTER J. SLUPE
City Manager

Contact Person: John Molloy
440-1360

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RESOLUTION NO. 84-964

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

November 7, 1984

APPROVED
BY THE CITY COUNCIL

MULTIFAMILY RENTAL HOUSING REVENUE BONDS: 113 004
AND SINGLE FAMILY MORTGAGE REVENUE BONDS

OFFICE OF THE
CITY CLERK

WHEREAS, the Sacramento Housing and Redevelopment Agency administers the City and County of Sacramento's housing bond programs, and cooperative housing bond programs with other jurisdictions; and

WHEREAS, the Underwriting and Bond Counsel finance team will be competitively bid every few years, and such team will have sale rights to structure the housing bond programs; and

WHEREAS, the results of a market demand study will assist staff in determining effects of the bond program on the housing market supply, and provide criteria and policy guidance for upcoming bond issues; and

WHEREAS, the Agency proposes an administrative fee be charged to developers participating in the bond program, to make the program self-supporting and to create a fund to finance other low and moderate income housing programs of the Agency as defined in Section 2 below; and

WHEREAS, the Agency proposes maximum affordable rent language and income restrictions to ensure that the units reserved for low income tenants under the bond program actually assist low income individuals and are affordable to those eligible for the Section 8 program;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

SECTION 1. That an up-front fee of 35 basis points is imposed as follows: A non-refundable 10 basis point fee paid at time of application and an additional 25 basis points paid just prior to bond sale. The 25 basis points will be refundable only if bonds are not sold, or if the application is turned down. If the fee is refunded, the Agency will retain an amount to cover its administrative expenses. The Agency will continue to collect a maximum annual fee of up to 10 basis points taken from bond proceeds to defray program expenses.

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SECTION 2. Any surplus (above and beyond bond program expenses) generated from the up-front 35 basis point fee may be used to defray low/moderate income housing related costs. Appropriate expenditures shall include, but not be limited to: rehabilitation, construction and maintenance of low/moderate housing projects, operation and maintenance of public housing projects, site acquisition, land writedown or payment of pre-development expenses for low/moderate income housing projects and various locally funded rent or mortgage subsidy or voucher programs.

SECTION 3. The City Clerk is directed to publish notice of an Ordinance Amendment to Subsection "e" of Section "3" of Ordinance Number 83-011 in the form attached to the staff report.

SECTION 4. The past policies relating to collaborative issues and sole use of the Agency's Underwriting team are re-confirmed.

SECTION 5. The Agency will attempt to coordinate a pooled multifamily bond program on a quarterly basis to meet developer demand, with an issue structured if sufficient developer demand exists. (This quarterly approach will commence when appropriate staffing is available to properly coordinate the program. These staffing needs will be addressed in the context of the 1985 Agency budget.)

SECTION 6. Project inducement resolutions may be passed on a more frequent basis. However, multifamily developers will participate in the quarterly program, single family issues will proceed based on State allocations, and inducement resolutions will have no bearing on zoning or other considerations which may be pending before the City Council.

SECTION 7. In cases where the Agency or developer cannot agree on the necessity for an individual issue, the developer shall have the right to appeal to the Sacramento Housing and Redevelopment Commission and the Board of Supervisors or City Council.

SECTION 8. A market demand study may be used as a guideline for qualifying projects for participation in the multifamily housing bond program.

SECTION 9. The changes made by this Resolution are to be effective for all projects induced after August 30, 1984.

MAYOR

ATTEST:

CITY CLERK

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ORDINANCE NO. 84-109

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

November 7, 1984

AN ORDINANCE AMENDING ORDINANCE 83-011
RELATING TO MULTI-FAMILY RENTAL HOUSING
BY AMENDING THE DEFINITION OF PROJECT

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

SECTION 1. Subsection e of Section 3 of Ordinance 83-011 is hereby amended to read as follows:

"Project" means any project for residential rental property of which, at all times during the qualified project period, 15 percent or more, in the case of targeted area projects, or 20 percent or more, in the case of any other project, of the units are to be occupied by individuals of low or moderate income as follows, all as further specified and defined in Sections 103(b)(4)(A) and 103(b)(12) of the Internal Revenue Code of 1954 as amended: Thirty-five percent of the 20 percent low income units shall be rented to individuals earning under 50 percent of median (as adjusted for family size and published by HUD for Section 8) and made affordable to Section 8 certificate holders by charging rents that do not exceed the Section 8 Fair Market Rents for existing housing (Fair Market Rents less utilities). Priority shall be given to Section 8 certificate (or voucher) holders for these units, although the units are not restricted to Section 8. The remaining 65 percent of the 20 percent low income units shall be rented to individuals earning less than 80 percent of median (based on family size) with rents that do not exceed 30 percent of 80 percent of median income, as adjusted for family size, as published by HUD for Section 8.

This amendment shall apply to all projects induced after August 30, 1984.

APPROVED
BY THE CITY COUNCIL

NOV 13 1984

OFFICE OF THE
CITY CLERK

ENACTED:

EFFECTIVE:

MAYOR

ATTEST:

CITY CLERK

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a. "Bonds" means revenue bonds authorized by this Ordinance and includes bonds, refunding bonds, notes, bond anticipation notes, certificates, debentures and any and all other limited obligations or evidences of indebtedness issued or entered into by the City pursuant to this Ordinance which are payable as provided herein.

b. "City" means the City of Sacramento, a municipal corporation organized and existing under the Constitution of the State and the Charter of the City.

c. "Costs", as applied to a Project financed in whole or in part under the provisions of this Ordinance, means and includes any and all reasonable or necessary costs incurred by or on behalf of a Developer to carry out all works and undertakings and to obtain all rights and powers necessary or incident to the acquisition, construction, installation, reconstruction, rehabilitation or improvement of a Project. "Costs" also includes but is not limited to all costs of issuance of Bonds for such purposes; the cost of studies, surveys, architectural and engineering services; funded interest on the Bonds prior to, during and for a reasonable period following construction of a Project; reserves for debt service and for repairs, replacements, additions and improvements to a Project; and other working capital incident to the operation of a Project. "Costs" also includes amounts paid or to be paid to a Developer in reimbursement of amounts previously paid or incurred by such Developer for any of the items described above.

d. "Developer" means an individual, association, corporation, partnership, or other entity, whether for profit or not, which is approved by the City to undertake a Project.

e. "Project" means any project for residential rental property of which, at all times during the qualified project period, 15 percent or more, in the case of targeted area projects, or 20 percent or more, in the case of any other project, of the units are to be occupied by individuals of low or moderate income, ~~and whose income does not exceed the amount (20%) of the State's median gross income for the year~~, all as further specified and defined in sections 103(b)(4)(A) and 103(b)(12) of the Internal Revenue Code of 1954, as amended.

f. "Revenues" means, the rents, fees, charges, interest, principal repayments, and other income received or to be received by the City from any source on account of a Project, and such other legally available moneys as the City Council, in its discretion, may designate as Revenues.

INDUCEMENT RESOLUTION POLICY

BACKGROUND

The attached policy regarding issuance of inducement resolutions for multifamily revenue bond financing is submitted for your APPROVAL. The bond program provides low interest mortgages to developers for the construction of multifamily rental housing. The inducement resolution is a legal device that enables developers to recoup development costs through bond proceeds. Only those costs which accrue subsequent to the date of adoption of the inducement resolution can be recouped through bond proceeds.

In the past, the Agency took applications for inducement resolutions only during the time in which a bond program was being organized. This presented a problem for some developers whose schedule for purchase of land or other development related expenses did not coincide with the Agency's bond program schedule. In attempting to make the program more responsive to developer needs, the Agency will now throughout the year review applications and bring to the Board inducement resolutions for approval.

The inducement resolution is not an approval by the governing body of the project, but instead merely indicates the Board's intentions to issue bonds. The Board is not obligated to issue bonds at a later date. Additionally, adoption of the inducement resolution is unrelated to any action the Board may have to take in relation to zoning special permits or entitlement concerns, or in relation to the issuance of building permits. In fact, developers will be required to sign a waiver indicating that they will in no way use the inducement resolution or the Board's action on such resolution during deliberations in regards to any zoning or entitlement changes, or in relation to building permit reviews.

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INDUCEMENT RESOLUTION
POLICY

General Information

A change in Agency policy now allows developers to apply for inducement resolutions at any time throughout the year. This new policy is intended to facilitate developers participation in the City/County Multifamily Revenue Bond Program.

Definition

The Inducement Resolution is a required legal device that allows developers to recoup project costs through bond proceeds. Project costs incurred prior to adoption of the inducement resolution by the Governing Body cannot be recouped through bond proceeds (except for 10% of pre-inducement costs). Adoption of the inducement resolution by the Board or City Council does not obligate the Board or Council to actually issue Bonds, nor does it imply approval of the project in relation to any zoning, special use or building permit concerns.

General Requirements

1. Although Inducement Resolutions are now provided at request, developers should expect to only participate in one of the quarterly collaborative issues. The Agency will not issue bonds for individual developers except on appeal to the Board of Supervisors or City Council for specific cause.
2. Should the Agency have to limit the number of projects financed through bond proceeds, these projects induced early on will not necessarily be the first project financed. Other factors will be taken into consideration. These factors include: Project location, approved zoning, readiness for construction, unit size mix, and proposed rents.
3. Developers must agree not to attempt to use the inducement resolution as leverage in obtaining any zoning changes, special permits or building permits. Issuance of the inducement resolution by the Board or Council does not imply approval of the project by the Board and Council in regards to outstanding zoning, special use or building permit requirements. Zoning, special use and building permits are a distinct and unrelated process from the Inducement Resolution. Approval of an Inducement Resolution is intended only to enable developers to recoup project costs through bond proceeds and does not make any judgment on the project itself.

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4. The Inducement Resolution will be valid for two years from date of issuance.

5. Should the original project owner, under whose name the project was induced sell the project, prior to bond sale, a legal opinion from bond counsel must be sought to determine whether the original inducement resolution is still valid or if a new one is required. Generally, the original inducement resolution will be valid if the project location remains the same and the number of units and bond fund request does not change. The Agency must be notified by letter of change in ownership, if the new owner plans to participate in the bond program.

Application Procedures

Request for inducement resolutions should be made through Sacramento Housing and Redevelopment Agency's Policy Planning Division.

Applicants must complete the attached project summary form, sign the Statement of Understanding and pay a 1/10th of 1% commitment fee. Applications will be processed as soon as possible. The fee is refundable, but only if a proposed bond issue is not sold. In this event, however, the Agency's bond related expenses will be subtracted.

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BOND PROGRAM PROJECTED ANNUAL
REVENUES/EXPENSES

- Assumptions: 1) Quarterly multifamily issues of \$20 million each
 2) An annual single family issue of \$40 million
 3) Two program analysts plus related expenses and overhead
 4) 35 basis points up-front, 10 ongoing

ExpensesStaff:

Salary & fringe benefits	\$86,000
Overhead	92,000
Secretarial	22,000
Management	7,000
	<u>\$205,000</u>

RevenuesMultifamily:

Up Front	\$280,000
Ongoing	80,000
	<u>\$360,000</u>

Program Expenses:

Per Multifamily Issue (x4)	\$10,000
Per Single family Issue	<u>15,000</u>
	\$55,000

Single Family

Up Front	\$140,000
Ongoing	<u>40,000</u>
	\$180,000

Total Program Costs	\$260,000
(Average Cost per Issue	\$ 52,000)

Total Program Revenues	\$540,000
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Excess Revenues Over Expenses: \$280,000
 Potentially Available for Other Housing Programs

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FEEs CHARGED BY
OTHER ISSUERS

Santa Clara

15 basis points, up front, at Inducement (for admin. costs)
30 basis points, up front, at closing (for low/mod. housing fund)
6 basis points, ongoing, from bond proceeds (to admin.
Regulatory Agreement)

51 Total basis points

City of Lancaster

50 basis points, up front

City of Long Beach

\$1,000 application fee

12 basis points, ongoing, from bond proceeds

County of Los Angeles

\$1,000 application fee

12 basis points, ongoing, from bond proceeds

City of Santa Rosa

\$200 up front

5 basis points, ongoing, from bond proceeds (for compliance with
Regulatory Agreement)

Fresno

\$500 per project application fee, non-refundable

50 basis points, up front, at closing (to defray admin. costs and
create a low/mod. housing fund)

12 basis points, annual, ongoing

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INCOME ELIGIBILITY LIMITS

<u>NUMBER OF PERSONS IN FAMILY</u>	<u>LOW INCOME (Low & Moderate Income) *</u>	<u>VERY LOW INCOME (Low Income) **</u>
1	\$ 15,300	\$ 9,550
2	\$ 17,500	\$ 10,900
3	\$ 19,650	\$ 12,300
4	\$ 21,850	\$ 13,650
5	\$ 23,200	\$ 14,750
6	\$ 24,600	\$ 15,850
7	\$ 25,950	\$ 16,950
8 or more	\$ 27,300	\$ 18,000

* Section 8 Low Income is 80% of the area median and is called "Low and Moderate" for CDBG reporting purposes.

** Section 8 Very Low Income is 50% of the area median and is called "Low" for CDBG reporting purposes.

(The national median family income for a 4-person family is \$27,000)

SOURCE: Section 8 Income Limits

EFFECTIVE DATE: May 11, 1984