# Residential Hotel Construction and Rehabilitation Program

Sacramento Housing and Redevelopment Agency
Housing Development Unit
630 "I" Street
Sacramento, CA 95814

1990

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Exhibit A

**PROPOSAL FOR**
**SACRAMENTO HOUSING & REDEVELOPMENT AGENCY**
**SINGLE ROOM OCCUPANCY HOTEL (SRO)**
**CONSTRUCTION & REHABILITATION PROGRAM**

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### I. SUMMARY OF RECOMMENDATIONS

The basic recommendations contained in this proposal ("the Program") are the following:

a) Give high priority to the allocation of available tax increment funds to the Residential Hotel program on an annual basis, within the context of the annual budget process.

b) Reserve the $1,000,000 tax increment money tentatively allocated in the 1990 budget for Residential Hotel development for Residential Hotel preservation/rehabilitation, as a first priority and new construction as a second priority.

c) To the extent monies for rehabilitation are available, issue a Notice of Funds Available (NOFA) for monies allocated to rehabilitation.

d) To the extent that funds for new construction are available, use them to acquire one or more site(s) in the Central City which meet the locational criteria outlined in this Program.

e) To the extent that monies for new construction are available, prepare and issue a Request for Proposals (RFP) for new construction on the selected site(s) based on the criteria and program elements set forth in this Program.

f) Amend the zoning ordinance to the extent necessary to facilitate the construction and rehabilitation of Residential Hotels.

g) Modify the local building codes to the extent necessary to facilitate the construction and rehabilitation of Residential Hotels.

h) Investigate the legal and policy implications of an Residential Hotel replacement ordinance.

## II. BACKGROUND

Since 1982, the City has had a history of concern and involvement regarding the issue of preservation and development of Residential Hotel housing. Most recently, the reports and recommendations of several task forces and studies were summarized in a staff report presented at the Council's May 4, 1989 meeting. (See Attachment 1.) At this meeting, the Council adopted thirteen recommendations set forth in the report and directed staff to develop and implement an action program to accomplish these recommendations. The key recommendations as they relate to this Program were as follows:

a) Reaffirm recommendations of the Residential Hotel/SRO Financing Task Force and City/County Housing Financing Task Force concerning the maintenance of the current number of Residential Hotels, either through substantial rehabilitation or new construction.

b) Review all codes, standards and procedures involved in the construction of new Residential Hotels, seeking opportunities to reduce costs while at the same time safeguarding public health and safety.

c) Commit, through the budgetary process, $7,000,000 of Downtown Tax Increment Funds over the next five years for new construction and/or for substantial rehabilitation of Residential Hotels as per the recommendations of the Residential Hotel/SRO Financing Task Force.

d) Strongly discourage private developers from demolishing or converting any of the remaining Residential Hotels without working out a replacement plan. In the event a Residential Hotel is demolished or converted to another use, the Agency should commit a percentage of the Tax Increment funds derived from the new use for 10 years to assist in the construction of replacement Residential Hotel units.

e) Identify and acquire sites within the City which would be suitable for Residential Hotel construction. The focus, although not exclusively, should be on the Central City.

f) Issue Notice of Funds Available (NOFA) to the development community, advertise the availability of funds and/or land, and the City's interest in expanding the supply of Residential Hotels.

This Residential Hotel Program should be evaluated within the context of the May 4, 1989 report.

The 1990 budget allocates $1,000,000 in tax increment funds for use in the rehabilitation and construction of Residential Hotels. It is anticipated that these funds will be available from the sale of tax allocation bonds this summer. This Program represents both a short-term plan to spend the $1,000,000 effectively, and a long-term plan for expenditure of future funds. The Agency will continue to allocate funds to the Program on an annual basis, within the context of the annual budget process, to the extent that tax increment funds are available.

It is of utmost importance to realize that, given the high subsidy per unit required to achieve affordable rents, the $1,000,000 of tax increment money, and all future allocations of tax increment or other funds, must be leveraged with other local, state and federal resources to achieve any significant level of units.

In particular, financial feasibility of projects could well be dependent on the rehabilitation and new construction subsidy programs recently implemented by the State with funds authorized by the Proposition 77 and 84 bond measures. If Proposition 107 is passed in June 1990, an additional $150 million will be available for housing programs. $100 million of this will go for rental housing new construction; while $15 million will go for rehabilitation. Monies may also be available on the November ballot for housing preservation; again it is unclear what restrictions will be put on this money. The Agency will move forward quickly with its Residential Hotel program so that developers will be able to apply under the State programs before funds are depleted.

## III. GOALS

Fifteen Residential Hotels remain in various stages of occupancy in the Downtown Redevelopment Area, totaling approximately 900 units. Attachment A of Attachment 1 (the May 4, 1989 report) lists these Residential Hotels and provides the unit size of each. City policy, as approved in the May 1989 staff report, is to maintain the number of units currently existing, whether through rehabilitation or new construction. Beyond that, it is recommended that an aggressive program be mounted to begin replacing at least some of the units demolished or converted in the past. For example, since 1974, seven hotels, for a total of 658 rooms, were demolished or converted to other uses.

The Housing Assistance Plan, Program and Financing Strategy adopted by the Council in 1989 establishes a 200-unit new construction and a 400-unit rehabilitation goal over the next four years. If the initial $1,000,000 in tax increment money allocated to the Program is divided equally between new construction and rehabilitation, and hefty subsidies are obtained through the State's new construction and rehabilitation programs, up to 200 Residential Hotel units may be constructed and 150 units rehabilitated. However, if the initial money is directed to the immediate acquisition and rehabilitation of at-risk Residential Hotels, it is possible that no money will be available for new construction and the new construction goal not attained.

The fundamental demand exists for this number (and more) of Residential Hotel units because of: the number of Residential Hotels which have been demolished or converted, the low vacancy rates in existing Residential Hotel units, and the number of homeless single people in Sacramento. In 1960, there were an estimated 78 Residential Hotels in Sacramento, with approximately 3,500 rooms, as compared to the 900 units which exist today. The Sequoia and Ridgeway hotels, whose rehabilitation was financed in part by the Agency, have constant waiting lists ranging (according to the season) from 12 to 65 people in length. Conversations with social service providers indicate that many of the other hotels do not keep waiting lists, but are constantly full. Hence, it is often difficult to find housing for their clients in existing hotels. In addition, the number of homeless single people is large and increasing. In January of this year alone, 1,170 single people accessed City and County-funded shelters.

## IV. PLANNING ISSUES

It will be necessary to modify both the City zoning ordinance and the building codes in order to facilitate the construction and rehabilitation of Residential Hotels:

### a) Zoning Issues

Currently, no classification exists in the City zoning ordinance for Residential Hotels, which will be confusing at the planning stage unless rectified. Agency staff is working with City Planning to amend the zoning ordinance to include a category for Residential Hotels which would allow them to be located on land with commercial zoning.

Staff will also work with City Planning to establish a variance procedure which would waive all or a portion of City parking requirements on Residential Hotel projects. Few, if any, Residential Hotel occupants own cars, especially those residing in hotels located within the Central City.

b) **Building Code, Fire Code and Health & Safety Code Issues**

Staff is working with the City Building Inspector to review the local building codes for modifications necessary to allow for the development of Residential Hotel units. A complete report on this topic will be made to the Council in the near future.

## V. FUNDING SOURCES

Both the initial $1,000,000 in tax increment funds budgeted for Residential Hotel development and any future Agency funds will need to be leveraged with other monies to achieve a reasonable number of units. The Agency will expect developers to provide an equity contribution and obtain maximum conventional debt financing, as well as to aggressively seek out funding from other private and public sources. The Agency will also continue to explore the feasibility of using other local monies for the Residential Hotel program, such as the Housing Trust Fund and funds from Lot A. The Agency's intent is that local funds be used for gap financing only.

The two primary sources of outside subsidy funding currently are the State's Proposition 77 and 84 funds. A description of these two programs appears below. Beyond that, $150 million in additional funding for housing programs will be available if Proposition 107 is passed by the voters in June 1990. $100 million of this will go for rental housing new construction, while $15 million will go for housing rehabilitation. Additionally, SB 2226 (Roberti), if passed by the legislature, will add a measure authorizing an additional $165 million in funds for housing preservation on the November 1990 ballot. Both of these measures should be supported by the City.

Other funding sources, most of which are not likely to be of as great a value as State funds, are listed in Attachment 4.

a) **Proposition 84**

The State's Rental Housing Construction Program, funded by the Proposition 84 bond measure, is the most straightforward and available source of money for new construction of Residential Hotel projects. The program provides 3% interest loans at a minimum term of 40 years. Interest and principal may be deferred. The program has no loan caps per unit, but applications receive more rating points if the total loan per assisted unit is kept low.

A total of $200 million was authorized by the measure for rental projects and a Notice of Funds Available (NOFA) was recently issued for the first $40 million. Applications will be accepted quarterly. The first deadline date was March 2, 1990, at which time the State received 96 applications for funding. Since the applications far exceed the amount of money available in the first round of funding, any unfunded applications will be considered again during the next round. In addition, of course, more applications will be submitted. The large number of applications submitted means that the funding process will be highly competitive and funds may run out before an Agency-sponsored Residential Hotel application can be submitted. The Agency should use every effort to expedite its Residential Hotel program to enable developers to submit applications to the State before funds are exhausted.

b) Proposition 77

A NOFA was issued in June 1989 under the State's recently-organized California Housing Rehabilitation Program, funded by the Proposition 77 bond measure. The Program provides 30-year loans at a 3% interest rate for the rehabilitation of rental units. Unlike the Proposition 84 program, interest may only be deferred in certain cases.

Residential Hotel loan limits under the program are $15,000 per unit if the project is for rehabilitation only, and $25,000 per unit if acquisition is included.

This program was originally funded with $70,000,000 from the Proposition 77 measure. An additional $25,000,000 is available from Proposition 84 funds for the acquisition and rehabilitation of Residential Hotels. To date, total commitments and applications exceed $100,000,000. As with Proposition 84, the Agency needs to expedite its Residential Hotel program to accommodate developers seeking to apply for Proposition 77 funds.

## VI. NEW CONSTRUCTION VS. REHABILITATION

Priority will be given to rehabilitation over new construction. The reasons for this recommendation are multifold, complex, and must be evaluated in the context of the specific project under consideration.

In those cases where rehabilitation is less expensive, the reason is self-explanatory. Given the economies possible in rehabilitation work, this is often the case. With respect to Residential Hotels, however, the condition of the buildings, seismic requirements, etc., may reverse the equation, actually making new construction more economic.

There may be other "non-economic" factors to consider in evaluating the rehabilitation vs. new construction equation. Very significant among these is the difficulty in getting neighborhood acceptance of new Residential Hotels. Existing Residential Hotels have the advantage of being in place, accepted and in locations where the tenants have access to supportive services, etc. Historic preservation is also frequently a consideration. Attachment 8 lists the historic preservation status of the hotels as stated in the City's (Historic) Preservation Ordinance. We believe that unless the difference between the rehabilitation and new construction costs is very substantial (e.g., greater than 150%) that rehabilitation remains the preferred option. (Reconstruction on site might also be a preferred option.)

The Agency's policy at the present time will be that all existing Residential Hotels should be maintained for their present use. Both this policy and the priority on rehabilitation over new construction will be reviewed each year as staff has more experience with new construction and is able to better judge its feasibility.

To the extent that new construction monies are available, they will be used initially to acquire parcels for development. As soon as possible after sites are acquired, the Agency will issue an RFP for the parcels. The RFP will contain the program elements outlined in this report.

To the extent that rehabilitation monies are available, outside and above any monies which are used for the immediate acquisition and rehabilitation of certain at-risk Residential Hotels, a NOFA will be issued to announce funds available for rehabilitation projects.

## VII. DEVELOPERS

The Agency will work with both non-profit and for-profit owner/developer applicants. Our goal is that ownership will reside with the applicants. At this time, the Agency will only consider equity participation if necessary for project feasibility or if for some other reason such participation is deemed desirable.

## VIII. PROGRAM FINANCE AND UNDERWRITING CRITERIA

The following section outlines financing terms and underwriting criteria for Agency subsidies on Residential Hotel new construction and rehabilitation projects. In addition, simplified proformas of two prototypical new construction and rehabilitation projects are summarized.

### a) Financing Terms

The Agency will expect any applicant for Agency subsidies to maximize other, non-Agency funding sources. It is staff's intent that Agency funds only be used for gap financing. Staff has developed financing terms on its loans which it believes to be flexible and compatible with other funding sources in order to allow the developer to layer financing. Among the various types of financing on a given project, the funding terms which are the strictest will apply.

Table I outlines the terms of any land lease subsidies the Agency makes to Residential Hotel new construction projects. Table II outlines the terms of any loans the Agency makes to Residential Hotel projects, whether rehabilitation or new construction.

**Table I**

**LAND LEASE TERMS**
New Construction

| | |
|---|---|
| **TERM** | Minimum 40 years. |
| **EXTENSIONS** | May be extended in conjunction with extension of use restrictions. |
| **LEASE RATE** | The equivalent of 3% simple annual interest on the value of the land, paid monthly. Land value will be reappraised every 10 years. |
| **DEFERRALS** | Lease payments may be deferred on a case-by-case basis if necessary for financial feasibility. |
| **PRIORITY PAYMENT SEQUENCE** | Cash from projects will be paid out in this order:<br>- Operating expenses<br>- Conventional debt(s)<br>- Replacement reserve<br>- Agency lease payment<br>- Interest, principal on secondary financing |
| **SUBORDINATION** | May be subordinated to other financing. |
| **ASSUMPTION** | Assumable with Agency approval. |

| | |
|---|---|
| **REGULATORY AGREEMENT** | Recorded and runs with the land for the full term of the loan and shall be binding on all successors in interest. |

Table II

**LOAN TERMS**
Rehabilitation/New Construction

| | |
|---|---|
| **TERM** | Minimum of 30 years. |
| **EXTENSIONS** | May be extended in conjunction with extension of use restrictions. |
| **BASE INTEREST RATE** | 3% simple interest, payable annually. |
| **DEFERRALS** | Principal and interest may be deferred on a case-by-case basis if necessary for financial feasibility. |
| **PRIORITY PAYMENT SEQUENCE** | Cash from projects will be paid out in this order:<br><br>- Operating expenses<br>- Conventional debt(s)<br>- Replacement reserve<br>- Interest, principal on secondary financing<br>- Interest on Agency loan<br>- Principal on Agency loan |
| **SHARED APPRECIATION** | Agency will be entitled to a share in any capital appreciation resulting from sale or refinancing, in the same proportion as the ratio of Agency loan to total development costs. |
| **SUBORDINATION** | May be subordinated to other financing. |

| | |
|---|---|
| **ASSUMPTION** | Assumable with Agency approval. |
| **REGULATORY AGREEMENT** | Recorded and runs with the land for the full term of the loan and shall be binding on all successors in interest. |

b) Underwriting Criteria

The criteria listed in Table III will be used to evaluate the financial feasibility of Residential Hotel projects applying for Agency subsidy.

Table III

UNDERWRITING CRITERIA

Agency Financing

| | |
|---|---|
| **LOAN TO VALUE RATIO** | Total encumbrances (after rehab if applicable), cannot exceed 90% of value (again, after rehab, if applicable). |
| **OWNER CASH CONTRIBUTION** | If new construction or acquisition in conjunction with rehabilitation, owner must put up 5% of total project costs in cash at close of escrow. |
| **ADMINISTRATIVE EXPENSES** | No more than 5% of total project costs. No outright developer fee. |
| **REPLACEMENT RESERVES** | 0.6% of total project costs. |
| **OPERATING RESERVES** | Upon initial occupancy, the amount in the account shall equal at least 1% of total project costs. Periodic deposits shall be made in an amount sufficient to offset potential operating shortfalls. |
| **SYNDICATION** | At least 75% of net proceeds after syndication costs must be applied toward project costs. |

c) **Conditions and Terms**

The following conditions and terms will be incorporated into the management and regulatory agreements on projects the Agency funds.

Management Plan

Management should have a strong and carefully thought-out management plan. The management of a Residential Hotel is labor-intensive and is different from the operation of other types of affordable rental housing projects. The management plan and operational budget should provide for such items as: 24-hour front desk coverage; adequate security; high degree of wear-and-tear; and pest control. Adequate operational reserves are essential, especially in the early years of project operation. Provision should be made for annual review of the budget by the Agency.

Management's aim should be to market to a mix of tenants, including such groups as the elderly and downtown service workers, as well as to recipients of General Assistance and SSI.

Regulatory Agreements

1) Tenant income levels: The Agency will require that at least 60% of a project's units be rented to households making less than 50% of area median income. However, other financing programs may attach income requirements to projects. In these cases, the most restrictive income requirements will apply.

For example, the Proposition 84 program stipulates that at least 30% of a project's units be rented to low-income households (i.e. incomes less than 80% of median). Additionally, at least 2/3rds of these units must be targeted for very low-income (below 50% of median) households.

The Proposition 77 program is less specific in its requirements regarding the number of units in a project which must be assisted. The actual number depends largely on the income mix of the existing tenants. Applicants score higher on the application to the extent that the project includes a greater number of very low-income units.

2) Rent levels: Currently, market rents on unsubsidized Residential Hotel units range from $182 - 320 per month. (See Attachment 7.) The Agency's goal for new construction projects is a rent distribution roughly approximating the following:

| Proportion of Units | Rents |
|---|---|
| one-third of units | 30% of 30% of median income (in 1990: $200/month) |
| one-third of units | 30% of 35% of median income (in 1990: $230/month) |
| one-third of units | 30% of 40% of median income (in 1990: $262/month) |

Market realities may dictate a somewhat different distribution in price. Also, if the project is funded entirely under the Proposition 84 program, no rents could exceed 30% of 35% of median income, in which case the Agency would waive its rent restriction goals.

Amenity levels in the units should be reflective of the above rent differentials (i.e. units with higher rents should in general have a private bath, preferable light exposure, larger living area, etc.)

Initial rent levels on rehabilitation projects will have to be negotiated on a case-by-case basis, with the understanding that the above distribution in rents and amenity levels is considered the most desirable. Constraints on implementation of the above rent distribution will be: 1) rent increases to existing tenants may not exceed 5% and 2) rents must be reflective of after-rehab amenity levels.

Rents may be increased annually at a rate not to exceed the most recently published annual average percentage change in the United States Department of Labor Statistics Consumer Price Index, Residential Rent for All Urban Consumers for the West (CPI). The owner may request a greater rent increase if they can demonstrate, to Agency satisfaction, that the increase is necessary to pay for unusual or unforeseeable increases in costs.

3) <u>Occupancy</u>: Unless specifically designed for two-person households, units shall be occupied by no more than one person.

4) <u>Term</u>: The minimum term of the regulatory agreement on rehabilitation loans will be at least 30 years. The term of the regulatory agreement on new construction projects will be the same as the term of the land lease, which will be 60 years.

5) <u>Performance Bonds</u>: Owner/developer shall be required to obtain a performance bond and a labor and materials payment

bond in favor of the Agency as a named obligee. In lieu of the bonds, the owner/developer may provide a letter of credit, cash equivalent or real property security in form and amount approved by Agency legal staff.

**d) Program Economics**

Staff has developed preliminary proformas to illustrate the financing concepts outlined in this Program. The proformas, while incorporating many of the terms and conditions discussed above, are nevertheless simplified and are useful primarily to give a conceptual overview of sample projects. The proformas should not be construed as giving definitive information regarding construction costs, land costs, interest rates and terms of outside subsidies, etc. In particular, the amount of Agency subsidy will vary greatly, depending on the costs at the time of construction and the availability of subsidies from outside sources.

<u>New Construction</u>

The prototype new construction project (see Attachment 2) consists of 100 units on 12,000 square feet of land. Rents are in three tiers - $200, $230 and $262, as outlined under "Terms and Conditions" above. Construction costs in the proforma are modeled after several new Residential Hotels in San Diego. (Only experience will determine whether these costs are applicable to the Sacramento market.) Income and expense estimates are derived from assumptions about the Sacramento market and are based on local experience. Under this scenario, the land is leased from the Agency so the value of the land, estimated at $360,000, is not figured into the total project costs, but is figured into the total project subsidy.

The proforma assumes a $988,794 loan from a conventional lender (the maximum supportable by the project), a $1,048,759, 3% simple interest, deferrable payment loan from some outside source, and an Agency land subsidy in the form of a below market rate lease. Under this scenario, new construction projects will require subsidies of approximately $14,000 per unit (including the Agency's land subsidy of $3,600 per unit) in order to reach targeted rents.

It is important to note that outside sources of funds (such as the State's new construction program) may not be available by the time a project such as this one is built. Depending on project economics, the Agency may have to provide a below-market rate loan to the project in addition to the land subsidy.

For discussion purposes, it was assumed that the full amount of the lease payment ($10,800 in years 1 through 9 and $16,200 in years 10 through 17) is paid annually. The interest on the 3% simple interest loan was deferred for the full timespan of the proforma. Under this scenario, the developer makes a profit in year one. The project's overall internal rate of return (IRR) is 20%, (after tax and including sale of the building in year 17).

Lease payment and loan interest deferrals will be negotiated on a case-by-case basis. Some projects may require full or partial deferrals on the Agency lease payment, as well as any below market interest rate loans.

Rehabilitation

The prototype rehabilitation project (see Attachment 3) consists of 75 units, with acquisition costs of $10,000 per unit and rehabilitation costs of $15,000 per unit. These costs are estimates based on the Agency's past experience with the rehabilitation of Residential Hotel projects. Rents do not follow the three-tiered approach outlined in "Terms and Conditions" for several reasons. First, it is assumed that the project will have previous tenants, so that pre-rehab rents will not be raised by more than 5%. Next, even in the rehabilitated project, room sizes and amenity levels may not warrant three tiers of rents. Hence, rents are assumed to be $221 and $250, for an average rent per unit of $227.

As with the new construction, the proforma assumes the maximum conventional loan supportable by the project ($663,234) and a $1,000,000, 3% simple interest deferrable loan from some outside source. The Agency subsidy is also in the form of a 3% simple interest, deferrable loan and is in the order of $708,272. The proforma indicates that total subsidies of approximately $22,700 per unit will be necessary to make the project feasible at the above rents.

The rehabilitation proforma assumed that the full amount of interest on both the second and the third loan would be deferred for the full timespan of the proforma (17 years). With these deferrals, the developer is able to get a cash-on-cash return beginning in year one. The overall IRR, after tax and including sale in the 17th year, is negative because the owner will lose money upon sale of the property. The after tax IRR when sale is not included is 23%.

## IX. NEW CONSTRUCTION

This section describes the proposed use of funds designated for Residential Hotel new construction.

### a) Approach

In the first phase of the Program, (to the extent that funds are available for new construction), staff will use funds to acquire sites. Staff has been working to identify sites which meet the locational criteria discussed under b) below. The Agency will issue an RFP on sites as soon as possible after acquisition.

At the outset, the City's new construction program will concentrate on the development of high-density projects in which a majority of units are approximately 100 - 150 square feet in size. Attachment 5 provides a sample "footprint" of such a project, based on several recently constructed Residential Hotels. The total number of units per project may range from 75 to a maximum of 150. Developers will be requested to incorporate mixed-use and/or first-floor commercial space into their designs, if at all feasible. Developers will also be encouraged to design some, somewhat larger, units for two-person households. In general, units will have a minimal level of amenities and will be designed to make the most efficient use of space. However, within those constraints, developers will be encouraged to design projects to appeal to as broad a range of residents as possible from a mix of population groups. Hence, units may vary in regard to size and amenity level. For example, units may be 100 square feet in size or 175 square feet. They may have private baths or baths down the hall, street exposure or light well exposure. Rent levels will be adjusted to reflect the variance in amenities.

At some later point, the Agency will evaluate the minimum-amenity model of Residential Hotel and consider subsidizing studio-style upgraded units, if a need for this type of unit is determined to exist. This type of Residential Hotel would have slightly more amenities and would possibly serve seniors or those with somewhat higher incomes who simply do not want larger units.

Overall, the goal is to construct up to 200 new Residential Hotel units in the initial phase of the program. This goal assumes that $500,000 of the initial $1,000,000 of tax increment funds is allocated to new construction and that money is available from the State under the Proposition 84 program. If it is necessary to allocate the $1,000,000 primarily to rehabilitation, or if the developer is unable to obtain Proposition 84 funds, the 200 unit goal may be sizably reduced.

Staff will also provide technical assistance, on a selective basis, to developers who are not submitting proposals under the Agency RFP process, but who require Agency support for Residential Hotel project applications they are submitting on an individual basis to the State under the Proposition 84 program.

**b) Location**

New construction in the initial phase of the Residential Hotel program will be focused on the Central City. Residential Hotels have historically been located in the Central City and most of the perceived need for this type of housing continues to be in this area. In the future, as additional funds become available, the

Agency will analyze the feasibility of Residential Hotel development in areas outside of the Central City.

Although it is preferred that sites be acquired within the CBD itself, land prices in this area are becoming prohibitive. The estimated cost of sites in the CBD would be $80 to $200 per square foot, whereas prices outside of the CBD, but still within the boundaries of the Central City, range from $15 to $30 per square foot.

Out of an initial list of nineteen sites, six in particular have been singled out as being very attractive for construction of Residential Hotels. The sites are located on the south part of 16th Street, on 10th Street in the Southside neighborhood, on K Street in the midtown area, on L Street in the midtown area, on Alhambra near Broadway and on 16th Street just north of the Southern Pacific Railroad right-of-way. The exact location of the sites is not provided because property owners have not yet been contacted.

In addition, efforts should be taken to include Residential Hotel housing as a part of the housing strategy for the R Street Corridor.

New construction sites will be commercially zoned, which should serve to mitigate concerns about the density of development. The sites must be accessible to public transportation, as well as to the types of shopping and services commonly used by the target populations. Sites will be in areas where public concern and opposition will be minimized and where there will be the least impact upon the surrounding neighborhood. Likewise, sites will be in neighborhoods which will not have undue negative impact upon the Residential Hotel development itself. Sites in troubled neighborhoods will be avoided in order to allow the Residential Hotel developments and residents maximum opportunity for success.

**c) Request for Proposal (RFP) Process**

The Agency will distribute an RFP immediately upon acquisition of site(s). Applicants will have approximately two months to respond with proposals. The proposals must include information on the following:

1) <u>Applicant</u>:

a) Resumes on applicant and members of the development team, including owners, developers, architects, contractors, managers, etc.

b) Project organizational chart.

c) Summary of applicant's and development team members' experience in the area of affordable housing.

d) Applicant's financial statements.

d) Pending and resolved litigation against applicant or development team members that relates to comparable or other projects.

e) References.

2) Project:

a) Site plans, floor plans, preliminary architectural renderings and brief preliminary specifications.

b) Narrative description of the project, including such items as the number of units, rents, facilities provided, type of construction, etc.

c) Preliminary estimates of project costs.

d) Description of financing options, proposed financing package and preliminary proformas.

d) Ownership structure of the completed project.

e) Preliminary management proposal.

f) Schedule of performances.

Each proposal must be accompanied by a check for $15,000. This will serve as "good faith" money and is refundable, if the proposal is not accepted, or upon successful completion of the project. The money will go to compensate the Agency for liquidated damages should the project not be completed.

**d) Selection Process**

Proposals will be reviewed by a Selection Committee made up of: 1) two members of the Housing and Redevelopment Commission, appointed by the Chairman, 2) two Agency staff, and 3) a representative of either the City Planning Commission or City Planning Department with a background in architecture or design.

The proposals will be subjected to a two-phase competitive selection process. In the first stage, the experience and capacity of the applicant to successfully construct and operate a Residential Hotel project will be evaluated based on the criteria listed below:

1) References must be favorable.

2) Applicant should have experience in managing affordable housing projects.

3) Projects currently-owned and/or managed by the Applicant must be financially sound, well-managed and well-maintained. Points will be deducted for applicants with a history of code violations or fair housing complaints filed against them.

4) Applicant must demonstrate adequate past experience in residential construction and/or rehabilitation.

5) Applicant's past projects (new construction and/or rehabilitation) must reflect high quality work. Past projects which have contributed to community revitalization will be scored more favorably.

6) Applicant must be sound financially and must be financially capable of successfully completing and operating the project.

All other things being equal, preference will be given to applicants who present a development team with experience in developing and managing affordable housing and Residential Hotels in particular.

If applications successfully pass the first phase, the project itself will be evaluated according to the criteria listed below.

1) Project design is creative but realistic and incorporates the following aspects:

a) adequate provision for security
b) attractive
c) design harmony with surrounding neighborhood
d) pleasant common areas
e) access of each unit to light via light wells or other means
f) durability of interior
g) efficient use of space
h) range of unit sizes and amenity levels
i) handicapped accessibility in some units

2) Project design incorporates a mixed-use component (e.g., first-floor retail space.)

3) Total development cost per unit is at the lowest level commensurate with reasonably high quality construction.

4) Total Agency subsidy per unit is minimized.

5) Proposed financing package appears feasible.

6) Management proposal for the project is realistic and sound.

All projects will be required to include adequate operating, maintenance and replacement reserves throughout the term of the use restrictions.

Top candidates will be interviewed by the Selection Committee, who may ask Applicants to submit additional information as necessary for the Committee to make a final recommendation. The Committee will make a recommendation to the Housing and Redevelopment Commission within one month of the closing date for proposals. The Housing and Redevelopment Commission in turn will make a recommendation to the Agency. Upon approval of one or more projects by the Agency, the Agency will enter into, first a predevelopment agreement and, later, a Disposition and Development Agreement with the applicant(s).

## X. REHABILITATION

This section describes the proposal for use of monies allocated to rehabilitation of Residential Hotels in current or future years.

### a) Background

Attachment A of Attachment 1 (the May 1989 report) provides a list and map of those Residential Hotels in the Central City which still remain. The Residential Hotels have varied ownership histories and are in various states of repair. Four of the hotels, a total of 193 units, have already been rehabilitated using Agency financing (in part). All four hotels are covered by thirty-year regulatory agreements.

The list represents potential candidates for Agency rehabilitation funding. There is also the possibility that Residential Hotels which are not currently in use as such could be rehabilitated and restored to their original use, or that other types of buildings could be converted for use as Residential Hotels.

The Agency's short-term goal is to rehabilitate 150 - 250 Residential Hotel units with the initial tax increment money allocated to rehabilitation and 400-units over the next four years. These goals assume the availability of outside subsidy funds (such as State or federal funds) in addition to Agency monies. Should no State or other funds be available, the number of units the Agency can rehabilitate will be substantially reduced.

The Agency's intent is that rehabilitation of Residential Hotels be complete and of high quality, not merely cosmetic. Projects must be rehabilitated to published Agency rehabilitation standards.

To the extent that projects are at risk of being lost due to substantial code violations, or possible conversion of use, the Agency will consider using funds allocated to rehabilitation to acquire the project.

**b) Notice of Funds Available (NOFA) Process**

As Agency monies become available for rehabilitation, staff recommends issuing a Notice of Funds Available (NOFA). Proposals will be evaluated on an over-the-counter basis upon issuance of the NOFA. The NOFA process may be pre-empted if a particular Residential Hotel becomes in danger of being lost to commercial development, conversion or closure due to severe code violations.

Applicants must submit the "Applicant" and "Project" information outlined in Section IX, NEW CONSTRUCTION, Request for Proposal (RFP) Process. Applicant must have site control of the property at the time of submitting the proposal. Control may be demonstrated by an option on a property, if acquisition is contemplated in conjunction with rehabilitation, but the option must extend at least 120 days past the date of submittal of the proposal to the Agency.

**c) Selection Process**

Rehabilitation proposals will be reviewed by the same Selection Committee that will evaluate new construction proposals. Again, the proposals will be subjected to a two-phase evaluation process. In the first phase, the experience and capacity of the applicant to successfully rehabilitate and operate a Residential Hotel project will be evaluated based on the criteria listed below.

1) **Management and Ownership History:**

a) If the applicant is the current owner of the project, the applicant must have made a demonstrated effort to correct code violations <u>before</u> submitting a proposal for Agency funding, as demonstrated by development of a correction plan in conjunction with the City Building Inspector.

b) If the applicant will be acquiring the Residential Hotel, their currently-owned and/or managed projects must be financially sound, well-managed and well-maintained.

Code and fair housing violations will be taken into consideration.

2) References must be favorable.

3) Applicant or applicant's development team should have experience in managing affordable housing projects.

4) Applicant or applicant's development team must demonstrate adequate past experience in residential construction and/or rehabilitation.

5) Past projects (new construction and/or rehabilitation) of applicant or applicant's development team must reflect high quality work. Past projects which have contributed to community revitalization will be scored more favorably.

All other things being equal, preference will be given to applicants who present a development team with experience in developing and managing affordable housing and Residential Hotels in particular. If applications successfully pass the first phase, the project itself will be evaluated according to the criteria listed below. The Selection Committee will recommend top candidates to the Housing and Redevelopment Commission for approval.

1) Project is in need of rehabilitation.

2) If acquisition is involved, acquisition costs are be reasonable, as demonstrated by information on comparable sales.

3) Planned rehabilitation is sufficient and meets Agency rehabilitation standards.

4) Total development cost per unit is at the lowest level commensurate with the quality of rehabilitation required.

5) Total Agency subsidy per unit is minimized.

6) Proposed financing package appears feasible.

7) Management proposal for the project is realistic and sound.

All projects will be required to maintain adequate operating, maintenance and replacement reserves throughout the term of the use restrictions.

The Housing and Redevelopment Commission in turn will make a recommendation to the Redevelopment Agency. Upon approval of one or more projects by the Redevelopment Agency, the Agency will enter into, first a predevelopment agreement and, later, a Disposition and Development Agreement with the applicant(s).

# SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

May 4, 1989

Sacramento City Council
Sacramento, California

Honorable Members in Session

SUBJECT: Single Room Occupancy (SRO) Housing Units Action Program

BACKGROUND:

At your regular meeting of February 21, 1989 the City Council discussed the possible closure of the Shasta Hotel and its potential conversion to a non-residential use. At the specific request of Council members Mueller and Serna, the staff was requested to review and report back on alternative approaches for maintaining the current supply of SRO units, including a replacement housing ordinance. (Among other things, staff was requested to investigate an ordinance proposal by the City of Los Angeles.)

This report responds to these requests. Specifically, it 1) presents a survey of the current SRO situation, 2) describes previous assistance activities of the Agency, 3) chronicles the more than six years of studies and recommendations by the Agency and actions by the City Council, 4) analyzes recent proposals, and 5) recommends an action program for rehabilitating existing SRO's and constructing new ones within the City.

SURVEY OF CURRENT SRO'S AND ACTIVITIES:

As background, there are currently 15 remaining SROs in various stages of occupancy in the Downtown redevelopment area with approximately 900 units (Attachment A). By comparison, in 1960 there were an estimated 78 residential hotels with approximately 3,500 rooms. Virtually all were demolished and/or converted to office uses. Seven of these, with 658 rooms, were changed since 1974 (Attachment A).

On the plus side, two SROs (Ridgeway and Sequoia) have been substantially rehabilitated and placed under thirty year regulatory agreements. Additionally, the Agency has assisted in the rehabilitation of two "new" SROs--the YWCA (32 rooms) and the Midtown Motel (20 rooms). Each of these is also covered by a thirty year regulatory agreement. (Also see Attachment A.)

Staff is currently working with a developer on the construction of a 60 unit SRO on CADA property near the intersection of 16th & O Streets. This project would be a partial replacement for the California Hotel.

Additionally, an application has been submitted to HUD for a McKinney Act SRO Moderate Rehabilitation Section 8 Award for the Golden Hotel on 10th street. This, would allow a program similar to that of the Midtown. This however, involves a highly competitive national competition for a relatively few units.

Finally, in March you approved the Administrative Plan for the 75 units of Moderate Rehabilitation Section 8 previously awarded to the City by HUD. This Administrative Plan, which gave priority to SROs in Redevelopment and CDBG Target Areas, would have permitted the rehabilitation of approximately 130 units. Unfortunately, we have just been notified that <u>all</u> Moderate Rehabilitation Section 8 awards in the Country have been cancelled due to problems in this program at the national level. A major national audit of the Moderate Rehabilitation Section 8 Program is underway. We have no way of knowing if or when we might receive another award.

Overall, staff has discussed rehabilitation and new construction potentials with several SRO owners and prospective developers. It is our considered opinion that a significant amount of activity could be generated if SROs were made a high priority and substantial funds were pre-committed in forthcoming budgets.

To date, most discussions of SROs have involved the multi-story residential hotels in downtown. It should be kept in mind, however, that many motels in both the downtown and outlying areas fullfill the same function; renting rooms on a monthly basis to "permanent" residents. A number of motels on 16th Street, for example, fit this category. Our Rehabilitation Program should consider these as additional potential facilities.

PRIOR STUDIES, PROGRAMS AND ACTIONS:

Any consideration of additional City efforts to preserve or replace the remaining SROs should be placed within the context of previous studies, recommendations and City actions. Over the past six years there has been an almost continuous staff involvement in the issue involving three task forces. The recently adopted Housing Trust Fund Proposal, for example, is a direct outgrowth of these efforts. Attachment B is a chronology of SRO investigatory activities since 1982. Attachment C is a summary of current policies as reflected in the several planning documents adopted by the City Council. Attachment D is an excerpt from the Adopted Housing Assistance Plan Program and Financing Strategy related to SROs. These documents show a consistent City Council concern for SRO retention. Although the City has expended a substantial amount for the rehabilitation of several SROs, a concerted, well financed plan has not been developed and implemented.

REPLACEMENT HOUSING ORDINANCES:

At your request, the City Attorney's office investigated the status of an SRO Replacement Housing Ordinance purportedly proposed in the City of Los Angeles. The ordinance in question is contained in a motion prepared by Councilman Michael Woo which would have required that anyone seeking to demolish an SRO be required to pay a fee of $25,000 per unit to build new replacement housing. This motion is still under consideration, but has not been adopted yet. We have not been able to obtain any further details. Staff, however, will continue to monitor progress.

A replacement ordinance had been developed by staff and was considered by the Sacramento City Council in 1985/1986. This ordinance would have required the owner of an SRO to be converted or demolished to: 1) pay relocation benefits to current residents, and 2) replace the units one-for-one. This ordinance gave the owner several replacement options including a contribution to the Housing Authority of forty percent (40%) of the cost of replacing the same rentable square footage.

This proposed ordinance was vigorously opposed by the hotel owners and the Downtown Merchants Association. The owners felt that they were being singled out and that it was not fair to require them to maintain a use into perpetuity. From their perspective, the ordinance was forcing them to stay in business. The Merchants Association opposed the ordinance on the basis of a perceived negative effect of SROs and their tenants on the revitalization of the downtown area.

The replacement ordinance was rejected by the City Council in May 1986. At the same time, the Council established an SRO Finance Task Force to investigate alternative means and financial resources for dealing with the SROs. This Task Force which included SRO owners and downtown representatives ultimately recommended: 1) a relocation benefits ordinance; 2) a program to maintain the then existing number of SRO units; and 3) establishment of an SRO Housing Trust Fund.

The City Council accepted the first two recommendations of the SRO Task Force, but not the third (the SRO Trust Fund). Instead, the Council requested that the Board of Supervisors join in establishment of a City/County Housing Finance Task Force to develop a County-wide approach for raising local funds to expand the supply of all low-income housing, including SROs. The recently adopted Trust Fund Ordinance is a direct outgrowth of this effort.

SRO NEW CONSTRUCTION:

During the public hearings on the Housing Trust Fund, it was suggested that the City should explore "creative" programs used in other communities to see what could be done in lieu of a development fee for gap financing. One specific program mentioned was the San Diego SRO new construction program. Pursuant to your request, the following is a brief summary of this program and a preliminary analysis of its applicability to Sacramento.

Over the past two years the City of San Diego has successfully worked with private developers in the construction of new SROs, allegedly with no public financing. As of October, 1988, 465 new SRO units had been built in close proximity to downtown. An additional 1,855 purportedly were either under construction or had building permits applied for.

The program resulted in part from the recommendations of an SRO Task Force which recommended preservation and rehabilitation of SROs and the construction of new ones. (An almost identical set of recommendations was made by the City of Sacramento SRO Task Force and has been incorporated into the adopted Housing Assistance Plan, Program and Financing Strategy.)

The San Diego program includes the following components:

- Code changes including a parking variance, permitting mechanical ventilation of courts, modifying handicapped access requirements, allowing a fire sprinkler system to be substituted for a host of various code items, allowing a minimum of 150 square feet with partial kitchen and bathroom facilities.

- o Financial incentives that the City provided included: a reduction in water and sewer connection and capacity change rates that fairly reflect SRO usage; and low interest loans to developers to underwrite rents for very low-income affordability.

The San Diego results to date are impressive and can provide some guidance to local efforts. SHRA staff had previously discussed the program with staff of the San Diego Housing Commission and has toured several of their SROs. Subsequently, we spent an afternoon touring Sacramento with the developers of the Baltic Inn, the first of the new San Diego SROs. We are continuing our discussion with this firm on the feasibility of their entering the Sacramento market. Additionally, as mentioned above, we are currently working with a local developer towards construction of a sixty unit SRO in downtown.

The difference in prevailing rent levels is what makes the San Diego program feasible with little public subsidy. SRO rents in San Diego are between $50 and $100 higher than those in Sacramento. This permits a great deal more debt financing of projects. These higher rents also make most of these units unaffordable to the very low-income persons who are the targets in the previously adopted Sacramento programs. A rent of $180 to $200 should be the maximum for a person on SSI earning approximately $600 a month. A typical San Diego SRO rent of $300 would consume half this meager amount. The restricted rent for the Sequoia and Ridgeway by comparison is only $185.

It is clear from analysis of the San Diego model, from discussion with San Diego staff and from our own local efforts, that SROs which will be affordable to very low-income persons (the focus in the Housing Assistance Plan & Program) cannot be built in Sacramento without a deep public subsidy. They can not in San Diego either. In the case of the Baltic, as an example, the City is providing a 3% loan in order to achieve 20% of the units at rents affordable to very low-income persons.

POTENTIAL SOURCE OF FUNDS:

1. Housing Trust Fund: The future of this source is somewhat clouded by the lawsuit brought by the Building Industry Association and therefore, cannot be counted upon at this time. SROs would be one eligible use of such funds.

2. Rental Rehab Block Grant: Currently the City receives approximately $400,000 a year from the Federal Government. Although SROs are an eligible use, 70% of the funds must be utilized for large family units. Additionally, no income or rent limits can be imposed.

3. CDBG: These funds can be used for rehabilitation of units to be occupied by very low income households. The City would need to re-evaluate its priorities for use of this relatively limited and much sought after source.

4. Redevelopment Tax Increment: This has been the principal local source to date. It has the advantage of having the highest degree of flexibility in use. Funds can come from either the annual increment or from sale of bonds. Staff is anticipating a Tax Allocation Bond Issue in 1990, of which a portion of the bond proceeds could be committed to SROs.

5. State: Funds, specifically for SROs will be available from General Obligation Bonds sold under Propositions 77 and 84. A Notice of Funds available for rehabilitation is expected within a couple of months. Funds for new construction may be available in the fall of 1989. They will be at terms relatively similar to those applied to the Sequoia, the Ridgeway and the YWCA.

6. Federal Moderate Rehabilitation Section 8: This program does not provide any rehabilitation money but through Section 8 payments, which are set at 120% of the HUD Fair Market Rent, makes it possible for an owner to fully amortize either conventional or private debt over a relatively short (10-15 year) period. These funds are, however, very limited and are subject to national competition.

7. Project Based Section 8: Based on recently enancted legislation, up to 15% of the Agency's Section 8 certificates can be "attached" to specific projects, thereby guaranteeing rents for the contract period. An overall Section 8 policy report will be submitted to you for approval at a future date. SROs could be considered a part of this program.

RECOMMENDATIONS:

In view of the previous history, Council actions and the new Trust Fund, staff does not recommend that the City Council revisit the issue of a replacement ordinance. Instead, the City should agressively pursue, with local, state and federal funds, the implementation of previously adopted policy. A specific action program with adequate financing should be developed and implemented to accomplish these objectives. Such a program should include the following components:

1. Reaffirm recommendations of your SRO Financing Task Force and City/County Housing Financing Task Force concerning the maintenance of the current number of SROs, either through substantial rehabilitation or new construction.

2. Review all codes, standards and procedures involved in the construction of new SROs, seeking opportunities to reduce costs while at the same time safeguarding public health and safety.

3. Commit, through the budgetary process, $7,000,000 of Downtown Tax Increment Funds over the next five years for new construction and/or for substantial rehabilitation of SROs as per the recommendations of the SRO Financing Task Force.4.

4. Strongly discourage private developers from demolishing or converting any of the remaining SROs without working out a replacement plan. In the event an SRO is demolished or converted to another use, the Agency should commit a percentage of the Tax Increment funds derived from the new use for 10 years to assist in the construction of replacement SRO units.

5. Identify and acquire sites within the City which would be suitable for SRO construction. The focus, although not exclusively, should be on the Central City.

6. Issue Notice of Funds Available (NOFA) to the development community, advertise the availability of funds and/or land, and the City's interest in expanding the supply of SROs.

7. Contact all SRO owners, (a) announcing the availability of funds for rehabilitation and/or (b) soliciting their interest in selling their properties to entities interested in rehabilitating/preserving them.

8. Maintain close liason with the State. Provide maximum assistance to developers seeking state funds for acquisition, rehabilitation and construction of SROs.

# SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



9. Monitor all Federal Programs related to SROs (eg: Moderate Rehabilitation Section 8) and agressively pursue all possibilities.

10. Actively solicit and promote non-profit involvement in SRO projects to assure their long-term availability.

11. Develop an equity participation approach for dealing with private developers to permit the Agency or a non-profit organization to ultimately acquire assisted projects.

12. Examine the present code enforcement system for improvement opportunities. Review all potential legal mechanisms for ensuring proper upkeep of rental residential properties, (eg: rent Escrow account program REAP) and develop a comprehensive program of code enforcement and positive city actions to ensure compliance (Consider suggestions presented by Housing Advocates - Attachment E).

13. Form a Task Force on Code Enforcement and Housing Preservation to assist in conceptualizing and implementating recommendations. Include Housing Advocates and representative of the Apartment Association and the Sacramento Association of Realtors.

Respectfully submitted,

ANDREW J. PLESCIA
Acting Executive Director

AJP:LS:sdg/drr

2410WPP(193)

ATTACHMENT A

# SRO Inventory

## Existing SROs - April 1989 (2)

| Hotel | Rooms | Address |
|---|---|---|
| Berry | 114 | 8th and L Streets |
| Biltmore | 30 | 1009 J Street |
| Capitol Park | 180 | 1125 9th Street |
| Clinton | 15 | 1624 J Street |
| Congress | 30 | 906 12th Street |
| Flagstone | 42 | 1111 7th Street |
| Golden | 27 | 1010 10th Street |
| Marshall | 95 | 1122 7th Street |
| Midtown Motel (1) | 20 | 12th and G Streets |
| Ridgeway (1) | 55 | 914 12th Street |
| Royal | 80 | 1121 7th Street |
| Sequoia (1) | 88 | 911 K Street |
| Shasta | 80 | 1021 10th Street |
| Wendell | 18 | 1208 J Street |
| YWCA (1) | 32 | 17th and L Streets |
| | 906 | |

(1) Rehabilitated, covered by thirty year regulatory agreement.
(2) Excludes several motels that have monthly rentals.

## Estimated SROs - 1960

Number of SROs
78
Number of Rooms
3,560

## Demolished or Converted since 1974

| | | |
|---|---|---|
| Hull | 9 | 16th and J Streets |
| Bachman Arms | 68 | 1320 I Street |
| Californian | 111 | 800 I Street |
| Clunie | 175 | 8th and K Streets |
| Del Rio | 23 | 1214 K Street |
| Mark Twain | 68 | 1316 I Street |
| Ramona | 160 | 1007 6th Street |
| Regis | 53 | 1106 11th Street |
| | 658 | |

SRO Rehabilitation Assistance

1. Sequoia Hotel (1986) - 88 rooms - Tax Increment $300,000, State $1,000,000.

2. YWCA (1986) - 32 rooms - Tax Increment $125,000, State $150,000.

3. Ridgeway Hotel (1988) - 53 rooms - Tax Increment $300,000, State $810,000.

4. Midtown Motel (1988) - 20 rooms - Tax Increment $156,000.

ATTACHMENT B

# Chronology
# SRO Activities

A. Downtown Elderly and Transient Housing Task Force (Established 12/16/82 by the City Council and Board of Supervisors)

1. Task Force Charge - To study the problem of downtown elderly and prepare short- and long-range solutions to the problems of elderly and transient persons.

2. Investigations included:

   a. Administrative concepts

   b. Physical solutions

   c. Locations

   d. Ownership potentials

   e. Financing possibilities

3. Final Report (March, 1983) Principal Recommendations

   a. Imposition of a moratorium on conversion until adoption of the Downtown Redevelopment Plan update.

   b. Development of a funding program to assist in acquisition and rehabilitation.

   c. Development of a demonstration rehabilitation program.

   d. SHRA technical assistance to developers.

   e. Consideration of proposals for construction of new SROs.

   f. Inclusion of consideration for a one-for-one replacement requirement in the Downtown Redevelopment Plan update.

   g. More frequent inspections by regulatory agencies of the City and County.

4. Council Action on Report

   a. Adopted recommendations.

   b. Appropriated $500,000 T.I. and $15,000 CDBG.

c. Directed staff to implement programs to the greatest extent possible.

d. Directed City Attorney to investigate feasibility of one year moratorium.

B. MORATORIA

July 1983 - One year moratorium adopted.

October 1984 - Moratorium extended.

May 1985 - Moratorium extended; staff directed to investigate alternative mechanisim for preserving the existing housing stock.

C. Replacement and Relocation Ordinance
(Prepared by SHRA and City Attorney Staffs)
(Rejected by City Council May, 1986)

1. Applied to all SROs proposed for demolition or conversion in Uptown Redevelopment area.

2. Required relocation benefits of $1,500 per person, or $2,500 for two or more persons in the same room.

3. Required one-for-one replacement by the owner through:

   a. Construction of new units; or

   b. Rehabilitation of units which have been vacant for three or more years; or

   c. Conversion of non-residential structures to residential units.

4. Permitted contribution to the Housing authority of forty percent (40%) of the cost of replacing the same rentable square footage.

5. Replacement units must remain affordable for five years.

6. Replacement units must be located in area bounded by 5th, G, 21st and P Streets.

D. SRO Finance Task Force
(Established by City Council June 10, 1986)

1. Task Force Charge -

   a. To study the full cost of repairing or replacing SROs.

b. To propose programs for rehabilitation or replacing SROs

c. Recommend means for financing programs.

2. Task Force Report--Key recommendations--September 22, 1986

a. Adopt relocation ordinance.

b. Approve a three-part approach to maintain the then current number of SRO units (990) to include:

1) Repair assistance as an interim measure.
2) Acquisition and/or substantial rehabilitation.
3) New construction.

c. Establish an $8,000,000 (subsidy), five year program with the following objectives.

1) Repair assistance for 300 units.
2) Substantial rehabilitation of one SRO project.
3) Construction of one or two new SROs per year.

d. Allocate $400,000 of T.I. annually.

e. Allocate $200,000 of CDBG or RRBG annually.

f. Establish an SRO Housing Trust Fund derived from:

1) Permit fees on new commercial development.
2) Permit fees on new residential development.
3) A portion of the City utility users tax.

g. Explore feasibility of a County-wide Housing Trust Fund.

3. City Council Action.

a. Accepted the Task Force Report, with exception of specific SRO Trust Fund.

b. Adopt Relocation Ordinance.

c. Requested Board of Supervisors participation in a City/County Housing Finance Task Force.

E. Relocation Ordinance
(Adopted by City Council June 10, 1986)

1. Requires issuance of a Conversion Certificate by the City Council before a building permit or demolition permit can be issued.

a. Sixty (60) day notice to tenants prior to application for a Conversion Certificate.

b. Fifteen (15) day notice prior to public hearing.

c. Sixty (60) day right of residency after Conversion Certificate before tenant is required to vacate.

2. Requires payment of $1,500 to eligible tenant. If last eligible tenant cannot be found, requires payment of eighty percent (80%) to SHRA housing fund.

3. Issuance of Conversion Certificate is ministerial action - will be issued if procedures are followed.

F. <u>City/County Housing Finance Task Force</u>
(Established by Board of Supervisors and City Council April 1987)

1. Task Force Charges - To investigate the need for housing affordable to low-income families and to develop recommendations on local financing and other strategies to meet that need.

2. Final Report June, 1988 - Principal recommendations:

   a. Establish a four year program to construct and/or substantially rehabilitate 4,000 rental housing units, which will be affordable to very-low income households, including:

      1) 400 rehabilitated SRO units ($4,120,000 subsidy);

      2) 200 new SRO units ($3,000,000 subsidy).

   b. Establish a Housing Trust Fund to provide gap financing, with funding derived from:

      1) a development fee on all new and substantially changed commercial structures;
      2) an annual employee tax.

3. <u>City Council Action</u>
(12/13/88)

   a. Adopted the HAPP, except for the Trust Fund which was considered as a separate ordinance.

   b. Directed staff to implement the HAPP.

   c. Adopted Trust Fund Ordinance based on Development Fee (3/6/89).

ATTACHMENT C

# SRO POLICIES OF SACRAMENTO

The need for rehabilitation and preservation of SROs in the City of Sacramento is addressed in several documents adopted by the City Council. Pertinent policy documents include:

1. THE HOUSING ASSISTANCE PLAN (HAP) - (1988 annual goals). Specifies that Tax Increment Funds have been allocated for SRO rehabilitation. An annual Housing Assistance Plan goal of one hundred (100) rehabilitated units is established.

2. THE HOUSING ELEMENT OF THE GENERAL PLAN - (1985). Contains a policy "to preserve the stock of single room occupancy units and to replace those which are removed."

3. THE DOWNTOWN REDEVELOPMENT PLAN - (1985). Establishes as a policy the preservation of SRO units and the replacement of those being converted. A total of 1,028 units are identified for retention.

4. THE FINAL REPORT OF THE DOWNTOWN ELDERLY AND TRANSIENT HOUSING TASK FORCE - (1983). Includes a provision directing the Sacramento Housing and Redevelopment Agency to "...develop a funding program to assist either nonprofit or for-profit organizations in acquiring, rehabilitating and preserving hotels for permanent single room occupancy."

5. THE FINAL REPORT OF THE CITY SRO FINANCING TASK FORCE - (1986). Contains the following policies and programs:

   A. Approve a three part approach to maintenance of the current number of SRO units, to include:

      1) A repair assistance program, as an interim measure.
      2) An acquisition and substantial rehabilitation program.
      3) A new construction program.

   B. Establish a five-year program to include:

      1) Repair assistance for 300 units.
      2) Substantial rehabilitation of one SRO per year.
      3) Construction of one or two new SROs per year.

   C. Aggressively pursue opportunities for private/public partnerships and for the infusion of private capital in the revitalization and construction for SROs.

   D. Direct SHRA to take steps to expeditiously implement the program with available and prospective funds.

6. HOUSING ASSISTANCE PLAN, PROGRAM AND FINANCING STRATEGY - (1988). Contains the following SRO Programs and Targets:

A. SRO Rehabilitation
(Target 400 rooms, public cost $4,120,000)

1) Provide assistance in upgrading existing SROs, in order to conserve this housing resource, at affordable rents.

2) Provide assistance to nonprofit or for-profit organizations in efforts to acquire, rehabilitate and manage residential hotels.

B. SRO Production
(Target 200 new units, public cost $3,000,000)

1) Develop programs to acquire suitably located property and construct new SROs.

# HOUSING ASSISTANCE PLAN PROGRAM & FINANCING STRATEGY (EXCERPT)

## 3. SRO REHABILITATION

Objectives:

-- Retain or obtain low-income housing at a relatively low cost.

-- Upgrade the appearance and condition of older SROs in the downtown area.

-- Enhance service support to SRO residents and reduce social problems associated with such occupancies.

Description:

-- Provide assistance in upgrading existing SROs, in order to conserve this housing resource, at affordable rents for very low-income persons.

-- Provide assistance to non-profit or for-profit organizations in efforts to acquire, rehabilitate, and manage residential hotels.

Identified Need:

-- SROs provide housing for almost 900 very low-income, single persons in the downtown area.

1988 to 1991 Target: 400 rooms assisted.

Funding Assistance Target:

-- **$4,120,000 (assume $10,300 subsidy per room required to maintain affordable rents).**

## 4. SRO PRODUCTION

Objective:

-- To increase the supply of SRO units and to provide replacements for SROs which are converted or demolished.

Description:

-- Develop program to acquire suitably located property and construct new SROs.

Identified Need:

-- Development pressures in downtown can be expected to cause the conversion or demolition of additional hotels.

1988 to 1991 Target: 200 new SRO units.

Funding Assistance Target:

-- $3,000,000 for acquisition and construction (assume $14,800 subsidy per unit).

Attachment E

# M E M O R A N D U M

DATE: May 5, 1989

TO: City Councilmembers

FROM: Marc Brown, Bill Powers, Barrie J. Roberts

RE: SROs; Shasta Hotel; Code Enforcement and Preservation of Low-Income Housing: Proposals For Immediate City Council Action

CITY COUNCIL HEARING: May 9, 1989

PRE-HEARING CONFERENCE: May 8, 1989, 3:00 p.m.

## INTRODUCTION

The City is currently searching for emergency, short-term solutions to homelessness to avoid river "sweeps". The City has also demonstrated its commitment to the long-term solution, decent, affordable housing, by voting for the Housing Trust Fund on March 7. However, on March 30, the City shut down the Shasta and Argus Hotels, losing 80-units of housing affordable to General Assistance recipients, due to code violations. Many other SROs and low-income housing have been cited for serious code violations and face condemnation.

Clearly, the City urgently needs a coordinated plan to preserve and produce decent affordable housing. Given the homeless emergency, we recommend that the City Council take the following immediate steps in that direction:

1. Amend Chapter 73 of the Sacramento City Code (SRO conversion and relocation ordinance) to provide that the City shall issue demolition and conversion certificates for SROs only after a finding, by SHRA, that the demolition or conversion is consistent with the City's Housing Element. (proposed amendments attached) If the finding cannot be made by the agency, then the conversion or demolition can only go forward if replacement units are constructed on a one-for-one basis before the conversion or demolition takes place.

2. Enact the REAP program (previously proposed by Joe Serna) as an emergency ordinance.

3. Direct staff to take immediate steps to acquire and

rehabilitate the Shasta and Argus Hotels as a top priority, ahead of other projects, by

a. applying for Proposition 84 and other funds, and

b. providing incentives to nonprofit corporations or private parties committed to maintaining the Hotels as decent, affordable SROs.

4. Appropriate funds to create a source of financing for housing preservation, rehabilitation and acquisition.

5. Form a Slumlord Strike Force, composed of City Attorneys, legal services attorneys, private attorneys, code enforcers, and others to coordinate criminal and civil prosecution of slumlords. Direct the Strike Force to consider, in appropriate cases, utilizing RICO statutes and conspiracy theories, seeking mandatory jail sentences, and other creative sentencing, such as serving time in one's own substandard building.

6. To preserve SRO and other rental units through code enforcement, direct staff to draft an ordinance which would:

a. assess fines against owners for serious code violations, and provide that the funds would be used to further the City's code enforcement plan, (e.g. hire additional inspectors);

b. where an owner fails to correct substandard conditions, allow the City to make the repairs and impose a lien against the property to recover costs;

c. where an owner fails to correct substandard conditions and the City decides to condemn the building, allow the City to provide relocation benefits to displaced tenants specified by state law, and impose a lien against the property to recover costs;

d. add to Official Notices and Citations of Substandard Conditions, a statement summarizing Civil Code Section 1942.4. This statute provides that if repairs are not made within 60 days, the owner may not seek rent and is liable to the tenant for money damages and attorney's fees for seeking rent;

e. develop additional provisions to strengthen code enforcement efforts toward preserving housing without unnecessary dislocation of tenants and condemnation of property.

7. Direct staff to immediately implement the enforcement of Revenue and Tax Code Sections 17274 and 24436.5 (denying tax deductions to slumlords) and develop a plan to utilize the money in the City's code enforcement efforts, e.g., hiring additional inspectors, mandating quarterly inspections of targeted priorities, such as SROs, etc.

8. <u>Form a Task Force on Code Enforcement and Housing Preservation</u> with directions to:

a. examine the present code enforcement system and propose improvements;

b. develop a coordinated approach to code enforcement and housing preservation;

c. provide a forum for case conferencing among various agencies working on problems arising from the same property;

d. apply for Proposition 84 and other funds for housing within the City;

e. plan for "Urban homesteading"; (City acquisition of foreclosed and abandoned property);

f. advertise to private sector the beneficial law relating to SRO reduced room size;

g. plan local bond measures for housing preservation;

h. draft proposals for property tax abatement for certain classes of SROs and low-income housing to be designated by SHRA (extending Filante bill)

i. over a 6-month period, invite speakers and hold workshops on the above-described topics, for presentations to City Council.

| | | | |
|---|---|---|---|
| A. PROJECT: | SRONEW: CONVENTIONAL LOAN, SHRA LAND LEASE | DESCRIPTION: | 100 units total |
| | | New construction | 100 units assisted |
| LOCATION: | New Construction of Residential Hotel | | |
| | SACRAMENTO | | 0% credit |

| B. PROJECT COSTS | w/lease | w/o lease |
|---|---|---|
| Land | $0 | $380,000 |
| Hard costs: Residential | 1,080,000 | $1,080,000 |
| Commercial | 360,000 | $360,000 |
| Contingency | 144,000 | $144,000 |
| Soft costs | 237,600 | $237,600 |
| Rent up reserve | 69,108 | $69,108 |
| Finance charges | 182,160 | $182,160 |
| Personal Property | 100,000 | $100,000 |
| Development/supervis'n overhead | 91,080 | $91,080 |
| Total development costs | $2,263,948 | $2,623,948 |
| Syndication costs | 0 | $0 |
| Grand total | $2,263,948 | $2,623,948 |
| Grand total per unit | $22,639 | $26,239 |

| ASSUMPTIONS | | | | | |
|---|---|---|---|---|---|
| Land: | | 12,000 | s.f. | $30 s.f. | |
| Hard Costs: | Residential | 120 | net s.f./unit x | 1.65 factor to include common space | |
| | | 160 | gross s.f./unit | $60 /s.f. | $10,800 /unit |
| | Commercial: | 6000 | s.f. | $60 /s.f. | |
| Contingency: | | 10.00% | of hard costs | | |
| Soft Costs: | | 15.00% | of hard costs & contingency | | |
| Rent up reserve: | | 25.00% | of GSI | | |
| Finance charges: | | 10.00% | of hard & soft costs & contingency | | |
| Personal property | | $1,000 | per unit | | |
| Devel't overhead | | 5.00% | of hard & soft costs & contingency | | |
| Cap rate | | 9.00% | | | |

| C. SOURCES OF FUNDS | TOTAL | PER UNIT |
|---|---|---|
| Equity | 226,395 | |
| Conventional loan (1) | 988,794 | |
| Below market rate loan (2) | 1,048,759 | 10,488 |
| Gap | 0 | |
| Total | 2,263,948 | 22,639 |
| SHRA land subsidy | $360,000 | $3,600 |
| Total subsidy (including land) | $1,408,759 | $14,088 |
| Gross syndication proceeds | 0 | |

| FINANCING ASSUMPTIONS | |
|---|---|
| Conventional loan (1) | |
| Debt service ratio | 1.15 |
| Interest rate | 9.50% |
| Term | 30 |
| Below market rate loan (2) | |
| Interest rate | 3.00% |
| Term | 30 |
| Deferred = 0 | 0 |
| Simple interest = 1 | |
| Loan/unit | $10,488 |
| Max. ann. interest | $31,463 |
| Lease payment | |
| Term | 40 |
| Annual = 0 | 2 |
| Deferred = 1 | |
| Graduated = 2 | |

| INCOME TAX FACTORS | | |
|---|---|---|
| Investor tax bracket (Fed. & State) | 40.10% | |
| DEVELOPER EQUITY | | |
| Developer Equity | 10.00% | of total development costs assumed |

ATTACHMENT 2

## D. USES & INCOME

| D. USES & INCOME | NUMBER | RENTS | SUM |
|---|---|---|---|
| SRO units - rents | 34 | 200 | 6,800 |
| | 33 | 230 | 7,590 |
| | 33 | 262 | 8,646 |
| | | | 0 |
| Total | 100 | | $23,036 |
| Average rent/unit | $230 | | |
| Low income units (tax credit | 0 | | |
| % of total | 0.00% | | |

### INCOME/EXPENSE ASSUMPTIONS

| | | |
|---|---|---|
| Income inflation rate | 4.00% | |
| Expense inflation rate | 5.00% | |
| Vacancy rate, residential | 5.00% | |
| Expenses/res. unit/yr | $1,620 | |
| Expenses/res. unit/mo | $135.00 | |
| Commercial space | 6,000 s.f. | |
| Commercial lease rate | $0.75 s.f. | |
| Operating costs/comm./yr | 10.00% | GSI |
| Replacement reserve | 0.60% | |
| (of hard & soft costs & contingency/yr) | | |
| Property tax | 1.10% | |
| Prop. tax increase | 2.00% | |
| Laundry income/unit | $4.00 | |

### LEASE ASSUMPTIONS

| | | |
|---|---|---|
| Year | 1 | |
| Land value | | $30.00 |
| Square ft | | 12,000 |
| Total value | | $360,000 |
| Land lease | | $0.08 /s.f./mo |
| 3.00% | | of appraised value of land/yr |
| $10,800 | | maximum payment/yr |
| Year | 10 | |
| Total value | | $540,000 |
| Land lease | | $0.11 /s.f./mo |
| 3.00% | | of appraised value of land/yr |
| $16,200 | | maximum payment/yr |

## F. CASH FLOW

| YEAR | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|
| Gross sched. res. income | $276,432 | $287,489 | $298,989 | $310,948 | $323,386 | $336,322 | $349,775 | $363,766 | $378,316 |
| Laundry/other income | 4,800 | 4,992 | 5,192 | 5,399 | 5,615 | 5,840 | 6,074 | 6,316 | 6,569 |
| Gross potential res. inc. | $281,232 | $292,481 | $304,181 | $316,348 | $329,002 | $342,162 | $355,848 | $370,082 | $384,885 |
| Less: Vacancy | $14,062 | $14,624 | $15,209 | $15,817 | $16,450 | $17,108 | $17,792 | $18,504 | $19,244 |
| Effective gross res. inc. | $267,170 | $277,857 | $288,972 | $300,530 | $312,552 | $325,054 | $338,056 | $351,578 | $365,641 |
| Less: Operating expenses | 162,000 | 170,100 | 178,605 | 187,535 | 196,912 | 206,758 | 217,095 | 227,950 | 239,348 |
| Property taxes | 28,103 | 28,665 | 29,239 | 29,823 | 30,420 | 31,028 | 31,649 | 32,282 | 32,927 |
| Replacement reserve | 10,930 | 10,930 | 10,930 | 10,930 | 10,930 | 10,930 | 10,930 | 10,930 | 10,930 |
| Net res. op. income | $66,138 | $68,162 | $70,198 | $72,242 | $74,290 | $76,338 | $78,382 | $80,416 | $82,436 |
| Gross commercial income | 54,000 | 56,160 | 58,408 | 60,743 | 63,172 | 65,699 | 68,327 | 71,060 | 73,903 |
| Less: Operating costs | 5,400 | 5,616 | 5,841 | 6,074 | 6,317 | 6,570 | 6,833 | 7,106 | 7,390 |
| Net comm. op. income | $48,600 | $50,544 | $52,566 | $54,668 | $56,855 | $59,129 | $61,495 | $63,954 | $66,512 |
| Net operating income | $114,738 | $118,706 | $122,764 | $126,911 | $131,145 | $135,468 | $139,876 | $144,371 | $148,949 |
| Available for debt (max) | $99,772 | $103,223 | $106,751 | $110,357 | $114,039 | $117,798 | $121,632 | $125,540 | $129,521 |
| Debt service-conventional | $99,772 | $99,772 | $99,772 | $99,772 | $99,772 | $99,772 | $99,772 | $99,772 | $99,772 |

| YEAR | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
|---|---|---|---|---|---|---|---|---|
| Gross sched. res. income | $393,449 | $409,187 | $425,554 | $442,577 | $460,280 | $478,691 | $497,838 | $517,752 |
| Laundry/other income | 6,832 | 7,105 | 7,389 | 7,685 | 7,992 | 8,312 | 8,645 | 8,990 |
| Gross potential res. inc. | $400,281 | $416,292 | $432,944 | $450,261 | $468,272 | $487,003 | $506,483 | $526,742 |
| Less: Vacancy | $20,014 | $20,815 | $21,647 | $22,513 | $23,414 | $24,350 | $25,324 | $26,337 |
| Effective gross res. inc. | $380,267 | $395,477 | $411,297 | $427,748 | $444,858 | $462,653 | $481,159 | $500,405 |
| Less: Operating expenses | 251,315 | 263,881 | 277,075 | 290,929 | 305,475 | 320,749 | 336,786 | 353,626 |
| Property taxes | 33,586 | 34,258 | 34,943 | 35,642 | 36,355 | 37,082 | 37,823 | 38,580 |
| Replacement reserve | 10,930 | 10,930 | 10,930 | 10,930 | 10,930 | 10,930 | 10,930 | 10,930 |
| Net res. op. income | $84,436 | $86,409 | $88,349 | $90,248 | $92,099 | $93,893 | $95,620 | $97,270 |
| Gross commercial income | 76,859 | 79,933 | 83,131 | 86,456 | 89,914 | 93,511 | 97,251 | 101,141 |
| Less: Operating costs | 7,686 | 7,993 | 8,313 | 8,646 | 8,991 | 9,351 | 9,725 | 10,114 |
| Net comm. op. income | $69,173 | $71,940 | $74,817 | $77,810 | $80,923 | $84,159 | $87,526 | $91,027 |
| Net operating income | $153,609 | $158,349 | $163,167 | $168,059 | $173,022 | $178,052 | $183,145 | $188,297 |
| Available for debt (max) | $133,573 | $137,695 | $141,884 | $146,138 | $150,454 | $154,828 | $159,257 | $163,737 |
| Debt service-conventional | $99,772 | $99,772 | $99,772 | $99,772 | $99,772 | $99,772 | $99,772 | $99,772 |

A. PROJECT: [illegible] CONVENTIONAL LOAN, SHRA LOAN . DESCRIPTION: 75 units total
. Rehabilitation 75 units assisted

LOCATION: Rehabilitation of SRO
SACRAMENTO . [illegible] credit

## B. PROJECT COSTS

| | | | |
|---|---|---|---|
| Acquisition: | 750,000 | | |
| Land | | $150,000 | |
| Building | | 600,000 | |
| Hard costs | | 1,125,000 | |
| Contingency | | 225,000 | |
| Soft costs | | 135,000 | |
| Rent up reserve | | 51,030 | |
| Finance charges | | 148,500 | |
| Personal Property | | 75,000 | |
| Development/supervis'n overhead | | 125,477 | |
| Total development costs | | $2,635,007 | |
| Syndication costs | | 0 | |
| Grand total | | $2,635,007 | 35,133 /unit |

## ASSUMPTIONS

| | | |
|---|---|---|
| Acquisition per unit | $10,000 | |
| Rehab per unit | $15,000 | |
| Land percent value | 20.00% | |
| Contingency: | 20.00% | of hard costs |
| Soft Costs: | 10.00% | of hard costs & contingency |
| Rent up reserve: | 25.00% | of GSI |
| Finance charges: | 10.00% | of hard & soft costs & contingency |
| Personal property | $1,000 | per unit |
| Devel't overhead | 5.00% | of hard costs |
| Cap rate | 9.00% | |

## C. SOURCES OF FUNDS

| | | |
|---|---|---|
| Equity | 263,501 | |
| Conventional loan (1) | 663,234 | |
| Other loan (2) | 1,000,000 | 13,333 |
| SHRA loan (3) | 708,272 | 9,444 |
| Gap | 0 | |
| Total | 2,635,007 | 22,777 /unit |
| Gross syndication proceeds | 0 | |
| Net syndication proceeds | 0 | |

## FINANCING ASSUMPTIONS

| | |
|---|---|
| **Conventional loan (1)** | |
| Debt service ratio | 1.15 |
| Interest rate | 9.50% |
| Term | 30 |
| **Other loan (2)** | |
| Interest rate | 3.00% |
| Term | 30 |
| Deferred = 0 | 0 |
| Simple interest = 1 | |
| Loan/unit | $13,333 |
| Max. ann. interest | $30,000 |
| **SHRA loan (3)** | |
| Interest | 3.00% |
| Term | 30 |
| Deferred = 0 | 0 |
| Simple interest = 1 | |
| Loan/unit | $9,444 |
| Max. ann. interest | $21,248 |

## INCOME TAX FACTORS

| | | |
|---|---|---|
| Investor tax bracket (Fed. & State) | 40.10% | |

## DEVELOPER EQUITY

| | | |
|---|---|---|
| Developer Equity | 10.00% | of total development costs assumed |

ATTACHMENT 3

## D. USES & INCOME

| | NUMBER | RENTS | SUM |
|---|---|---|---|
| SRO units - rents | 60 | 221 | 13,260 |
| | 15 | 250 | 3,750 |
| | | | 0 |
| Total | 75 | | 17,010 |
| Average rent/unit | $227 | | |
| Low income units (tax credi | 0 | | |
| % of total | 0.00% | | |

## INCOME/EXPENSE ASSUMPTIONS

| | |
|---|---|
| Income inflation rate | 4.00% |
| Expense inflation rate | 5.00% |
| Vacancy rate, residential | 5.00% |
| Expenses/residential/yr | $1,620 |
| Expenses/residential/mo | $135.00 |
| Commercial space | 4,200 s.f. |
| Commercial lease rate | $1.00 s.f. |
| Operating costs,comm./yr | 10.00% of GSI |
| Laundry income/unit/mo | $4.00 |
| Replacement reserve | 0.60% of hard & soft costs & contingency/yr |
| Property tax | 1.10% |
| Prop. tax increase | 2.00% |

## F. CASH FLOW

| YEAR | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| Gross sched. res. income | $204,120 | $212,285 | $220,776 | $229,607 | $236,792 | $248,343 | $256,277 | $266,608 |
| Laundry/other income | 3,600 | 3,744 | 3,894 | 4,050 | 4,211 | 4,380 | 4,555 | 4,737 |
| Gross potential res. inc. | $207,720 | $216,029 | $224,670 | $233,657 | $243,003 | $252,723 | $262,832 | $273,345 |
| Less: Vacancy | $10,386 | $10,801 | $11,233 | $11,683 | $12,150 | $12,636 | $13,142 | $13,667 |
| Effective gross res. inc. | $197,334 | $205,227 | $213,436 | $221,974 | $230,853 | $240,087 | $249,690 | $259,678 |
| Less: Operating expenses | 121,500 | 127,575 | 133,954 | 140,651 | 147,684 | 155,068 | 162,822 | 170,963 |
| Property taxes | 28,424 | 29,845 | 31,337 | 32,904 | 34,549 | 36,277 | 38,091 | 39,995 |
| Replace. reserve | 15,810 | 15,810 | 15,810 | 15,810 | 15,810 | 15,810 | 15,810 | 15,810 |
| Net res. op. income | $31,600 | $31,997 | $32,335 | $32,608 | $32,810 | $32,932 | $32,968 | $32,910 |
| Gross commercial income | 50,400 | 52,416 | 54,513 | 56,693 | 58,961 | 61,319 | 63,772 | 66,323 |
| Less: Operating costs | 5,040 | 5,242 | 5,451 | 5,669 | 5,896 | 6,132 | 6,377 | 6,632 |
| Net comm. op. income | $45,360 | $47,174 | $49,061 | $51,024 | $53,065 | $55,187 | $57,395 | $59,691 |
| Net operating income | $76,960 | $79,172 | $81,397 | $83,632 | $85,874 | $88,119 | $90,363 | $92,601 |
| Available for debt (max) | $66,922 | $66,845 | $70,780 | $72,724 | $74,673 | $76,626 | $78,577 | $80,523 |
| Debt service-conventional | $66,922 | $66,922 | $66,922 | $66,922 | $66,922 | $66,922 | $66,922 | $66,922 |
| Available for other debt and cash distribution | 10,038 | 12,250 | 14,475 | 16,710 | 18,952 | 21,197 | 23,441 | 25,679 |
| Debt serv. payment -loan 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt serv. payment - SHRA loan 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Developer distribution | 10,038 | 12,250 | 14,475 | 16,710 | 18,952 | 21,197 | 23,441 | 25,679 |
| Developer rate of return | 3.81% | 4.65% | 5.49% | 6.34% | 7.19% | 8.04% | 8.90% | 9.75% |
| Cumulative return | 10,038 | 22,288 | 36,763 | 53,473 | 72,426 | 93,623 | 117,065 | 142,744 |

| YEAR | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
|---|---|---|---|---|---|---|---|---|---|
| Gross sched. res. income | $279,352 | $290,526 | $302,147 | $314,233 | $326,803 | $339,875 | $353,470 | $367,609 | [illegible] |
| Laundry/other income | 4,927 | 5,124 | 5,329 | 5,542 | 5,764 | 5,994 | 6,234 | 6,483 | 6,743 |
| Gross potential res. inc. | $284,279 | $295,650 | $307,476 | $319,775 | $332,566 | $345,869 | $359,704 | $374,092 | [illegible] |
| Less: Vacancy | $14,214 | $14,783 | $15,374 | $15,989 | $16,628 | $17,293 | $17,985 | $18,705 | [illegible] |
| Effective gross res. inc. | $270,065 | $280,866 | $292,103 | $303,787 | $315,938 | $328,576 | $341,719 | $355,387 | $369,603 |
| Less: Operating expenses | 179,511 | 186,486 | 197,911 | 207,806 | 218,197 | 229,106 | 240,562 | 252,590 | 265,219 |
| Property taxes | 41,995 | 44,095 | 46,299 | 48,614 | 51,045 | 53,597 | 56,277 | 59,091 | 62,045 |
| Replace. reserve | 15,810 | 15,810 | 15,810 | 15,810 | 15,810 | 15,810 | 15,810 | 15,810 | 15,810 |
| Net res. op. income | $32,750 | $32,477 | $32,083 | $31,556 | $30,687 | $30,062 | $29,070 | $27,837 | $26,526 |
| Gross commercial income | 68,976 | 71,735 | 74,604 | 77,588 | 80,692 | 83,920 | 87,276 | 90,768 | 94,398 |
| Less: Operating costs | 6,898 | 7,173 | 7,460 | 7,759 | 8,069 | 8,392 | 8,728 | 9,077 | 9,440 |
| Net comm. op. income | $62,078 | $64,561 | $67,144 | $69,830 | $72,623 | $75,528 | $78,549 | $81,691 | $84,956 |
| Net operating income | $94,828 | $97,038 | $99,226 | $101,386 | $103,309 | $105,590 | $107,619 | $109,527 | $111,482 |
| Available for debt (max) | $82,459 | $84,381 | $86,284 | $88,162 | $90,008 | $91,817 | $93,581 | $95,293 | $96,945 |
| Debt service-conventional | $66,922 | $66,922 | $66,922 | $66,922 | $66,922 | $66,922 | $66,922 | $66,922 | $66,922 |
| Available for other debt and cash distribution | 27,906 | 30,116 | 32,304 | 34,464 | 36,587 | 38,666 | 40,697 | 42,666 | 44,565 |
| Debt serv. payment -loan 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt serv. payment - SHRA loan 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Developer distribution | 27,906 | 30,116 | 32,304 | 34,464 | 36,587 | 38,666 | 40,697 | 42,666 | [illegible] |
| Developer rate of return | 10.59% | 11.43% | 12.26% | 13.08% | 13.89% | 14.67% | 15.44% | [illegible] | [illegible] |
| Cumulative return | 170,649 | 200,766 | 233,070 | 267,534 | 304,121 | 342,789 | 383,486 | [illegible] | [illegible] |

IRR-before tax, w/o sale 5.80%

IRR-after tax, w/sale -96.06%

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Available for distribution, lease, or other debt | $14,966 | $18,935 | $22,992 | $27,139 | $31,373 | $35,696 | $40,105 | $44,599 | $49,177 | $53,837 | $58,577 | $63,395 | $68,267 | $73,250 | $78,280 | $83,374 | $88,525 |
| Lease payment | $10,800 | $10,800 | $10,800 | $10,800 | $10,800 | $10,800 | $10,800 | $10,800 | $10,800 | $16,200 | $16,200 | $16,200 | $16,200 | $16,200 | $16,200 | $16,200 | $16,200 |
| Debt service - loan 2 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Developer distribution | 4,166 | 8,135 | 12,192 | 16,339 | 20,573 | 24,896 | 29,305 | 33,799 | 38,377 | 37,637 | 42,377 | 47,195 | 52,067 | 57,050 | 62,080 | 67,174 | 72,325 |
| Developer rate of return | 1.84% | 3.59% | 5.39% | 7.22% | 9.03% | 11.00% | 12.94% | 14.93% | 16.35% | 16.62% | 16.72% | 20.85% | 23.01% | 25.20% | 27.42% | 29.67% | 31.95% |
| Cumulative return | 4,166 | 12,300 | 24,493 | 40,831 | 61,405 | 86,300 | 115,605 | 145,404 | 187,781 | 225,418 | 267,795 | 314,990 | 367,077 | 424,127 | 486,207 | 553,381 | 625,706 |

| | |
|---|---|
| Internal rate of return (before tax - w/o sale) | 9.83% |
| Internal rate of return (after tax - w/sale) | 20.65% |
| Internal rate of return (after tax w/o sale) | 24.32% |

## G. PROJECT FEASIBILITY

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Maximum supportable debt | 988,794 | 1,022,998 | 1,057,965 | 1,093,693 | 1,130,193 | 1,167,442 | 1,205,437 | 1,244,168 | 1,283,622 | 1,323,783 | 1,364,633 | 1,406,149 | 1,448,308 | 1,491,073 | 1,534,430 | 1,578,324 | 1,622,720 |
| Value (@ cap rate) | 1,274,882 | 1,318,959 | 1,364,045 | 1,410,117 | 1,457,169 | 1,505,195 | 1,554,182 | 1,604,118 | 1,654,987 | 1,706,767 | 1,759,435 | 1,812,962 | 1,867,317 | 1,922,463 | 1,978,356 | 2,034,949 | 2,092,189 |
| (Deficit)/surplus | (983,088) | (944,989) | (899,903) | (853,831) | (806,779) | (758,753) | (709,766) | (659,830) | (608,961) | (557,181) | (504,513) | (450,986) | (396,631) | (341,485) | (285,592) | (228,999) | (171,759) |

6. PROJECT FEASIBILITY

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Maximum supportable debt | 663,234 | 682,293 | 701,468 | 720,732 | 740,055 | 759,402 | 778,736 | 798,023 | 817,214 |
| Value (@ cap rate) | 855,114 | 879,667 | 904,410 | 929,247 | 954,160 | 979,105 | 1,004,035 | 1,028,899 | 1,053,642 |
| (Deficit)/surplus | (1,779,833) | (1,755,320) | (1,730,597) | (1,705,759) | (1,680,847) | (1,655,902) | (1,630,372) | (1,606,107) | (1,581,364) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Maximum supportable debt | 836,264 | 855,121 | 873,730 | 892,031 | 909,959 | 927,444 | 944,411 | 960,777 |
| Value (@ cap rate) | 1,078,203 | 1,102,515 | 1,126,508 | 1,150,104 | 1,173,219 | 1,195,763 | 1,217,036 | 1,238,733 |
| (Deficit)/surplus | (1,556,804) | (1,532,491) | (1,508,498) | (1,484,902) | (1,461,787) | (1,439,243) | (1,417,368) | (1,395,267) |

ATTACHMENT 4

## ALTERNATIVE FUNDING SOURCES FOR SRO NEW CONSTRUCTION AND REHABILITATION

a) Low-Income Housing Tax Credits: Congress extended the sunset on the tax credit program until December 1990, but is requiring states to rewrite program regulations. The Mortgage Bond Tax Allocation Committee should complete its reworking of the regulations late this spring. However, State legislation has been introduced which provides for somewhat different regulations for the program. Any dispute over the regulations may tie up use of the credits in the near term.

b) Housing Trust Fund: Two lawsuits have been filed against the City regarding the Trust Fund. The City is requiring developers to pay the fees, but is depositing the money in escrow until the lawsuits are resolved. Thus, no money is available in the near future from this source.

Because of Nexus concerns, Trust Fund monies should be spent to house individuals who work. Historically, the primary means of support for many residents of SRO units has been General Assistance and SSI grants. When Trust Fund monies do become available, a further evaluation will need to be done regarding how Trust Fund monies could be used to develop SRO's. Agency staff is developing a proposal for a more broad-based tax to fund low-income housing, which would also be deposited into the Trust Fund.

c) Section 8 for Moderate Rehabilitation: McKinney Act funds had been set aside for the moderate rehabilitation of SRO units through the Section 8 program. However, applications under this program have been held up by HUD since last year as a result of the overhaul of the entire Section 8 program. At this time, the regional HUD office is still uncertain when funds for this program will again become available.

d) Project-based Section 8: The Agency has the ability to attach 15% of all Section 8 certificates to specific projects. Currently, this amounts to 560 total certificates, of which 60 are for 0-bedroom units, (the only kind of certificate which can be attached to an SRO unit). Agency policy is that 30% of the total number of certificates attached should go to rehabilitation projects, while 70% should go to new construction. There are practical and policy reasons why attaching certificates to specific projects is difficult, however, to do so would decrease the amount of Agency subsidy required to make an SRO project feasible.

e) Rental Rehabilitation Block Grant: Currently, the City receives approximately $400,000 a year from the federal government under the Rental Rehabilitation Block Grant program. Although SRO's are an eligible use, 70% of Rental Rehab funds must be utilized for large family units. Additionally, no income or rent restrictions can be imposed. Therefore, a project cannot combine Rental Rehab funds with any other funding which has use restrictions attached (e.g. Proposition 77/84 funding), unless the funding program was in place prior to the initiation of the Rental Rehab program.

f) Savings Association Mortgage Company (SAMCO): SAMCO is a consortium of savings & loan associations which provides slightly below-market permanent financing for the new construction and rehabilitation of affordable housing projects. Money is fairly forthcoming, but the subsidy is not deep enough to finance the very low rent levels of SRO projects without additional subsidy.

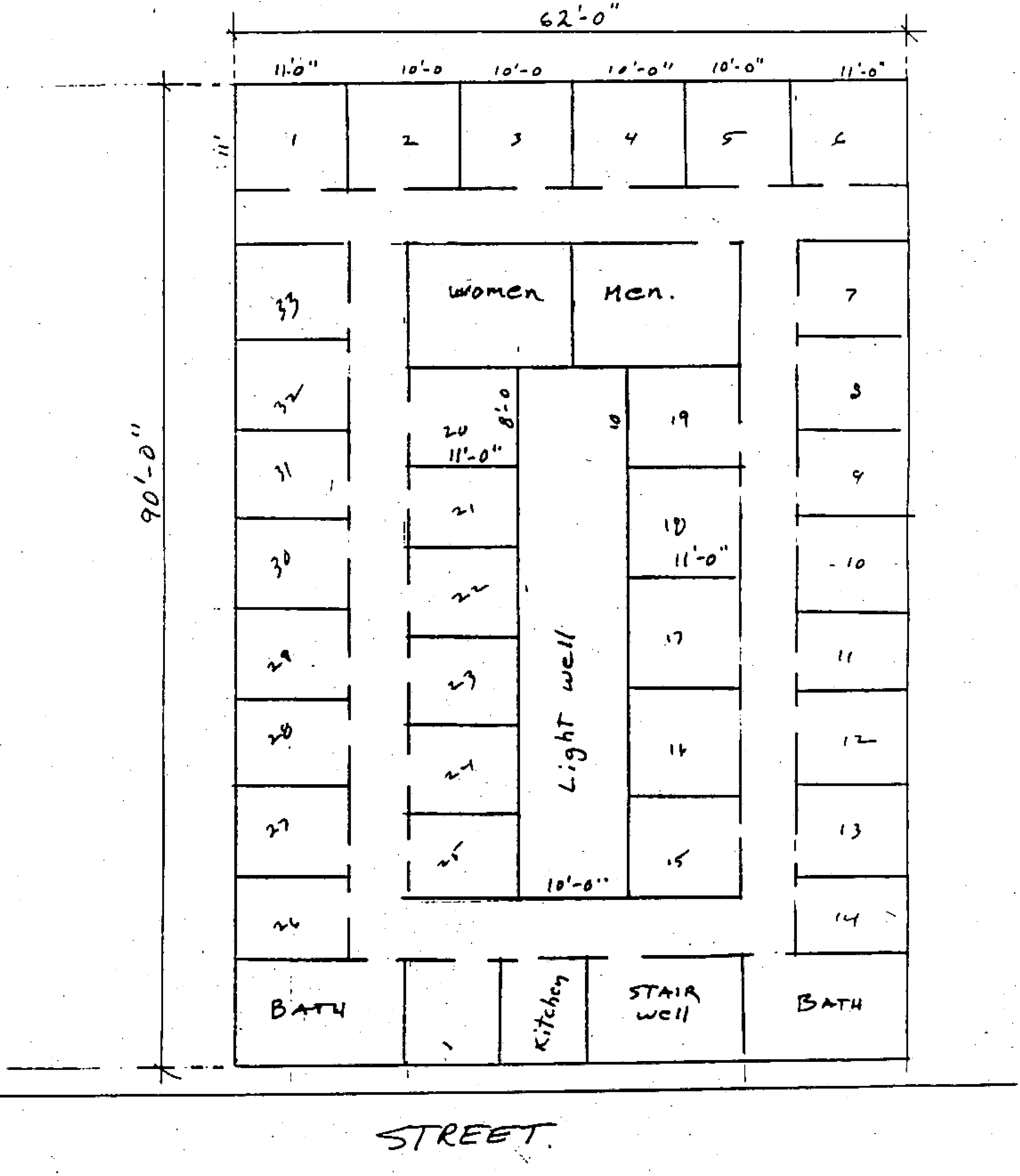
g) California Community Reinvestment Corporation (CCRC): CCRC is a recently formed consortium of commercial banks and is modelled after SAMCO. CCRC lends only to non-profits and currently does not lend to SRO projects.

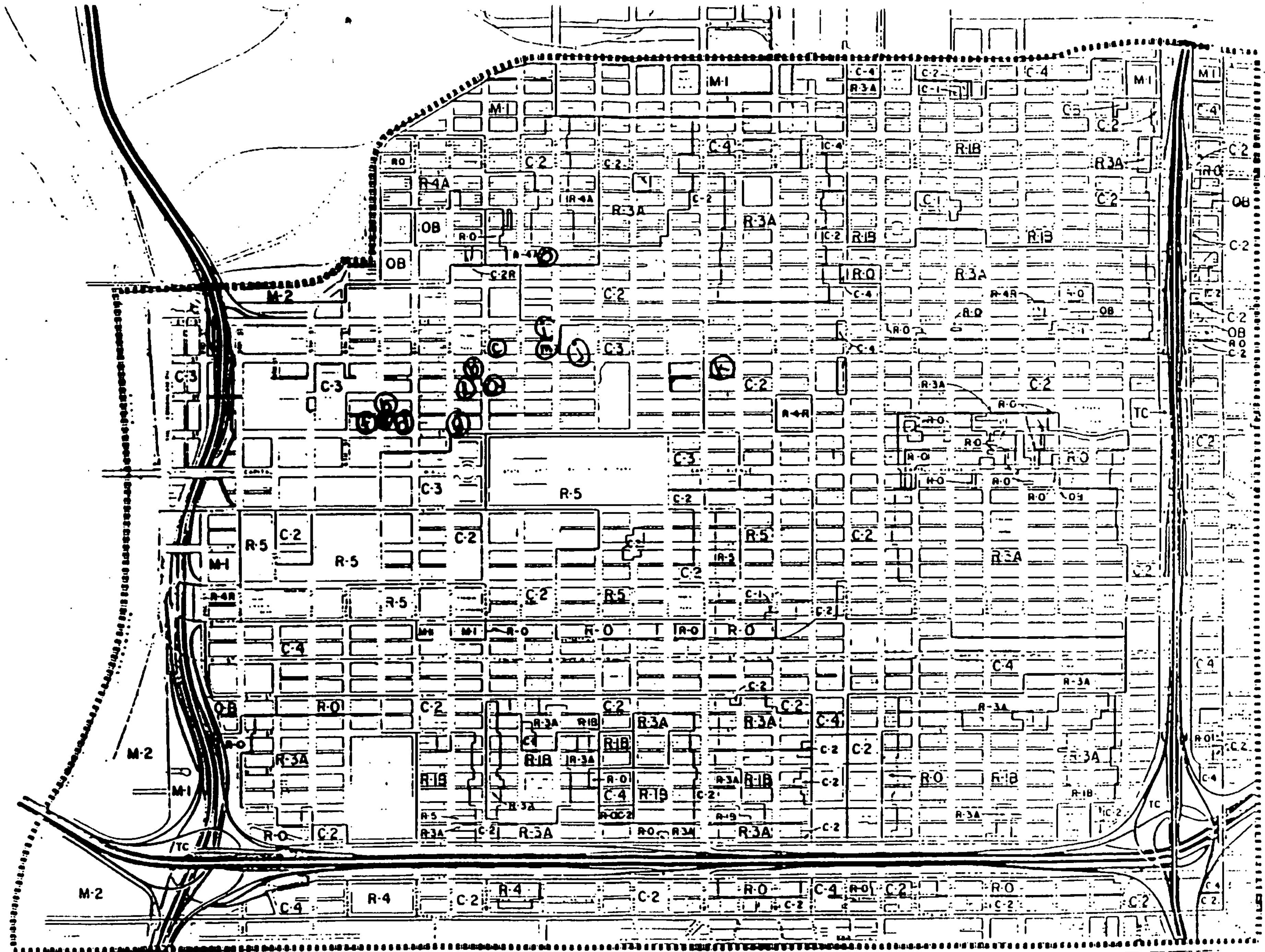
h) Low Income Housing Fund (LIHF): LIHF provides construction and permanent financing in the form of low-interest loans and grants to non-profit, community-based organizations. This is considered short-term gap financing only.

i) Section 312 Rehabilitation Loans: Section 312 loans, administered through the Agency, are 20-year, fully amortized loans. The interest rate is based on the 10-year treasury note and cannot be deferred. Projects may consist of no more than 99 units and must show a positive cash flow after all debt service is paid.

j) Bond Financing: Although SRO's are eligible for bond financing, the depth of subsidy provided is not sufficient to enable targeting to very-low-income residents.

ATTACHMENT 5






ATTACHMENT 6

→ (n)

## ADOPTED ZONING

LEGEND

| | | | |
|---|---|---|---|
| R·1B | SINGLE FAMILY | C·1 | LIMITED COMMERCIAL |
| R·3A | LIGHT DENSITY MULTIPLE FAMILY | C·2 | GENERAL COMMERCIAL |
| R·4 | MEDIUM DENSITY MULTIPLE FAMILY | C·3 | CENTRAL BUSINESS DISTRICT |
| R·5 | HEAVY DENSITY MULTIPLE FAMILY | C·4 | HEAVY COMMERCIAL |
| R·O | RESIDENTIAL - OFFICE | M·1 | LIGHT INDUSTRIAL |
| O·B | OFFICE BUILDING | M·2 | HEAVY INDUSTRIAL |
| | | T·C | TRANSPORATION CORRIDOR |

central
Sacramento city California
study

Scale in Feet

North

COMMUNITY INFORMATION CENTER_ HOUSING REFERRAL Clearinghouse 442-4995 OCT 1989

HOTELS

| 'ELS | MANAGER | ADDRESS | TELEPHONE | DAILY/WEEKLY/MONTHLY | G.A. VOUCHER | COMMENTS |
|---|---|---|---|---|---|---|
| ·ry | Mr. Kahn | 729 L. St. | 442-2971 | 25/ 100/ 265 | No | Price varies; with/ w/o TV baths |
| .tmore | Mr. A.S. Kahn | 1009 1/2 J St. | 447-9482 | No/ 65 / 210<br>2 wks. 110 | Yes | bath-shared |
| NGRESS | Mr. Patel | 906-12th St. | 442-9667 | 15/ 65/ 195 & up | No | Only 5 rooms have bath |
| agstone | Mr. Wilson | 1111-7th St. | 443-9651 | 27/115/265.50 + tax<br>$5. key dep. | Yes | 2 baths on each floor<br>1 shower on each floor |
| lden | Linda Jessen | 1010-1/2 10th St. | 447-8768 | / /180. | No | Shared bath. $5. key deposit |
| rshall | Daisy Edwards | 1122-7th St. | 443-7451 | 18.70/95./265<br>16.50/85./275<br>+ tax. $5.key dep. | Yes (quota) | 265.w/o shower<br>275. with shower |
| dgeway | Mr. Loque (owner)<br>Joe Tarro (manager) | 914-12th St. | 447-4344 | / /182.50 mo. | Yes | Without bath |
| yal | Ron Henry | 1121-7th St. | 442-3689 | 26.40/125/290-320.50<br>+ $3 key dep. | Yes (quota) | With bath. w/tv |
| quoia | Nad Carricher | 911 K. St. | 442-8973 | / /198. with bath<br>182.50 w/o bath<br>$5.-$7.. increase Dec 1. 1989 | No | With/w/o bath; $100. dep.<br>Single room only. |

ATTACHMENT 7

COMMUNITY INFORMATION CENTER_ HOUSING REFERRAL CLEARINGHOUSE 422-4995 OCT 1989

| HOTELS | MANAGER | ADDRESS | TELEPHONE | DAILY/WEEKLY/MONTHLY | G.A. VOUCHER | COMMENTS |
|---|---|---|---|---|---|---|
| l1 | Mohammad | 1208 1/2 J St. | 442-8351 | / / 205. | Yes | Without bath |
| uff | Art Ballard | 3456- 3rd Ave. | 456-0522 | /70.& up wkly. 240. & up monthly | (occasionally) | 20 rm.w/o bath 6 kitchenette-studio, community kitchen, washer & dryer. |

## Preservation Aspects - Residential Hotels

The following are the SRO's included in the City's Preservation Area Ordinance.

| Hotel | Address | Status |
|---|---|---|
| Clinton | 1624 J Street | Priority |
| Golden | 1010 10th Street | Priority |
| Shasta | 1021 10th Street | Priority |
| Sequoia | 911 K Street | Supportive |
| Capital Park | 1125 9th Street | Priority |
| Marshall | 1122 7th Street | Priority |
| Wendell | 1208 J Street | Priority |
| YMCA | 1122 17th Street | Essential |

## Status Definitions:

Essential: Those structures of irreplaceable architectural, cultural, or historic significance.

Priority: Those structures whose significance is of a lesser degree but should remain unless unusual and compelling circumstances dictate removal.

Supportive: Those buildings whose basic characteristics and/or salient architectural details harmonize with their surroundings and help maintain the integrity of a preservation area.

On April 2, 1985 the Redevelopment Agency approved the following preservation policy when it adopted the Policies and Implementation Procedures for the Downtown Redevelopment Plan Update:

> "Essential buildings are to be protected from demolition or substantial adverse alteration. Buildings other than essential structures (both priority and supportive) will be retained unless they are in direct conflict with a priority component of downtown revitalization."