



**SACRAMENTO  
HOUSING AND REDEVELOPMENT  
AGENCY**



October 6, 1987

Budget & Finance Committee of  
the City Council  
Sacramento, CA

Honorable Members in Session:

**SUBJECT: Forgiveness of Debt Held by the Federal Government  
Against Public Housing Projects - ACC SF-391**

SUMMARY

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

RECOMMENDATION

The staff recommends approval of the attached resolution authorizing execution of the necessary amendment.

Respectfully submitted,

*William H. Edgar*  
WILLIAM H. EDGAR  
Executive Director

TRANSMITTAL TO COMMITTEE:

*Jack R. Crist*  
JACK R. CRIST  
Deputy City Manager

Attachment



# SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



October 5, 1987

Housing Authority of the  
City of Sacramento  
Sacramento, California

Honorable Members in Session:

SUBJECT: Forgiveness of Debt Held By The Federal Government  
Against Our Public Housing Projects  
Annual Contributions Contracts As Amended, SF-391

## SUMMARY

This report recommends your concurrence with the federal government's program to remove specific housing projects from the debt incurred by the federal government to finance their original construction (or in some cases, modernization).

## BACKGROUND

For years, the Federal government has used a debt mechanism to finance the construction/modernization of public housing. Essentially, funds were borrowed by the federal government to finance the housing. The funds were passed through to the local housing authorities for construction, with the debt registered against the specific housing project. The Federal Department of Housing and Urban Development then paid the debt on behalf of the local authorities under what was called an Annual Contributions Contract (ACC). Essentially, it was an elaborate mechanism under which the federal government could borrow money but not actually have it show up as a direct liability against them. Theoretically, debt holders would have recourse against the specific project if the federal government defaulted on its payments to them.

This mechanism has, in recent years, come under considerable criticism in the federal budget debates for several reasons:

- 1) It obligated the government to considerable long term payments over a 30 year period with all of the related budget implications.

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- 2) It had the appearance of being an off line budget item and an attempt to obfuscate the true federal liability.
- 3) The system was cumbersome administratively with the unnecessary burden of continually re-executing the Annual Contributions Contract.

Several years ago DHUD, therefore, proposed and got approval for a onetime forgiveness of all this debt obligation by local housing authorities. Essentially, the outstanding debt was just assumed by the federal government, with clear title to the projects handed over to the individual authorities. Future public housing construction would, according to the theory, be constructed on a grant basis from current year budget authority.

DHUD now wants our concurrence in the early repayment of this debt. There are several positive and negative points to the current forgiveness plan which, from our perspective, you should be aware of. While it was nice to have all of this project related debt forgiven, the procedure does sever an important link between the local authorities and the federal government making them in many ways less responsible for and concerned about the ongoing well being of the various projects. While the procedure is not supposed to effect the Performance Funding System (PFS) under which operating subsidies are passed through to local authorities, whether or not it will remains to be seen. These questions have been posed to DHUD, however, no specific clarification has yet been developed.

There are also considerable questions regarding the proposed grant system for future public housing construction. Many argue that such a system is much more susceptible to the vagaries of budget problems in a given budget year and will, in fact, change the federal government's entire perspective toward ongoing financing of this program (which has been severely cut in recent years anyway). The argument continues that the action represents a further retreat from the federal government's commitment to low income housing. Others argue that the onetime grant approach is a much more efficient, productive way to go. It also remains to be seen which of the thirty-four (34) City ACC amendments this action applies to. Only those loans which were financed thru sale of DHUD held notes are to be forgiven. DHUD is currently in the process of determining those projects and the dollar amount to be forgiven.

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We have checked with our contacts at the National Association of Housing and Redevelopment Officials and the Council of Large Public Housing Authorities as well as directly with DHUD regarding our options in this matter at this time. DHUD's position is that this is essentially a ministerial cleanup matter since the debt has already, in fact, been paid, and that legislation dictates it.

NAHRO and CLPHA feel that we essentially lost the legislative battle several years ago and that there is no value in resisting now. No class action is contemplated at this time. Because we are trying to retain a good relationship with DHUD on other matters, we tend to agree. We are, therefore, suggesting that the Executive Director be given authority to execute the amendments subject to further clarification by DHUD.

## FINANCIAL DATA

If this action is approved, a total of approximately \$10,300,000 in debt ostensibly tied to our housing projects will be forgiven (See Exhibit A). Clean title will pass to us and the yearly ACC process will terminate. The exact amount is currently being determined by DHUD.

## ENVIRONMENTAL REVIEW

No environmental review is required for this activity.

## POLICY IMPLICATIONS

See background section for a complete delineation of the policy implications involved in this action.

## VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of October 5, 1987 the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES:

NOES:

ABSENT:

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## RECOMMENDATION

Authorize the Executive Director to execute the attached contract amendment only upon final determination by DHUD of the total amount of forgiveness and further clarification by DHUD of their intent for continued flow of operating subsidies.

Respectfully submitted,

*William H. Edgar*  
WILLIAM H. EDGAR  
Executive Director

TRANSMITTAL TO COUNCIL:

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WALTER J. SLIPE  
City Manager

Contact Person: John Molloy, 440-1357

ID 243-k

# RESOLUTION NO.

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO

ON DATE OF

October 13, 1987

FORGIVENESS OF DEBT HELD BY THE FEDERAL GOVERNMENT  
AGAINST PUBLIC HOUSING PROJECTS - ANNUAL  
CONTRIBUTIONS CONTRACTS AS AMENDED, SF-391

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

Section 1: The Executive Director is authorized to execute the attached amendment to the Annual Contributions Contracts As Amended, SF-391 upon his acceptance of the final determination by the Department of Housing and Urban Development of the total amount of forgiveness and further clarification by the Department of Housing and Urban Development of their intent for continued flow of operating subsidies.

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CHAIRMAN

ATTEST:

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SECRETARY

LISTING OF NOTES  
CITY CONVENTIONAL  
AS OF 12/31/86

	Project	Principal Balance	Interest Balance	
Notes Mod	CA005001M	\$941,536.42	\$104,402.34	New Helvetia
	CA005002M	927,444.62	102,839.70	River Oaks
	CA005003	81,045.69	8,986.80	New Helvetia (50 units)
	CA005003M	112,759.23	12,503.29	New Helvetia
	CA005006M	98,304.15	10,900.68	Sierra View, 1107 23rd Street
	CA005009M	141,805.23	15,724.09	Washington Plaza, 1318 E Street
	CA005013M	20,984.42	2,326.86	Williamland Villa, 1943 43rd Ave.
	CA005902	194,292.92	23,564.85	5-1, New Helvetia (310 units)
				5-10, 2516 H Street (29 Units)
				5-11, 3543 1st Ave. (32 units)
				5-12, 2845 37th Street (18 units)
				5-15, 480 Redwood Ave. (80 units)
Dev	CA005017	976,560.27	114,291.85	917 38th Street (30 units)
	CA005019	3,210,275.68	355,971.48	City scattered (102 units)
	CA005022	763,260.48	95,212.07	Alkali Flat Family (16 units)
	CA005023	874,957.73	78,288.52	Oak Park Single Family (14 units)
	CA005024	<u>906,754.37</u>	<u>109,975.78</u>	Oak Park Townhouses (20 units)
	TOTAL	\$9,249,981.21	\$1,034,988.31	\$10,284,969.52