



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



11

August 23, 1988

Budget and Finance Committee
of the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Acquisition of 36-Unit Rental Project on Glen Ellen
Circle

SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the Redevelopment Agency and City Council of the City of Sacramento.


RECOMMENDATION

The staff recommends approval of the attached resolution approving the acquisition.

Respectfully submitted,


WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:


JACK R. CRIST
Deputy City Manager

Attachment



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



August 15, 1988

City Council of the
City of Sacramento
Sacramento, California
and
Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Acquisition of 36 Unit Rental Project
on Glen Ellen Circle

SUMMARY

This report recommends that the Redevelopment Agency of the City of Sacramento acquire Glen Ellen Estates, a 36 unit fourplex project, from the US Department of Housing and Urban Development for \$643,032, using funds appropriated from the Redevelopment Agency Downtown Tax Increment Replacement Housing Fund (Northeast Neighborhood). The project will be transferred to the newly formed Sacramento Housing Development Corporation for rehabilitation and subsequent syndication to attract private investment capital through sale of low income housing tax credits. The project will be managed by the Housing Authority at a below market rate rent level sufficient to cover operating expenses, debt service and a reasonable replacement reserve, without an operational subsidy.

BACKGROUND

Glen Ellen Estates is a 36 unit fourplex development on Glen Ellen Circle near its intersection with 24th Street (See map attached as Exhibit "A"). In October 1987, the owner defaulted on his FHA insured mortgage. The property was conveyed to HUD in June 1988. In the interim, the already badly deteriorated, vacated property was severely vandalized. (It was boarded up and fenced in only after it was received back by HUD).

8-23-88
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Under HUD's normal property disposition procedures, properties received back from mortgage lenders are appraised and then sold through sealed bids to the highest bidder on an all cash basis. The property disposition procedure, however, gives public agencies an opportunity to purchase such properties at the following discounts in support of local programs:

- no market exposure - 90% of appraisal
- after 30 days - 80% of appraisal
- after 6 months - 70% of appraisal

SHRA Staff has worked closely with the HUD area office to negotiate a mutually satisfactory sales price for the property. In our view, even 90% or 80% of the \$902,500 appraised price would have been excessive due to the amount of rehabilitation necessary. To facilitate a sale at a "reasonable" price in support of local housing and community development objectives, the Manager of the HUD Area Office requested and received permission from Washington to sell the property to the Agency for \$643,032, which is 75% of the revised listing price, without waiting the required 6 months of market exposure.

The Glen Ellen project has had a history of social, physical and economic problems which were detrimental to the adjacent neighborhoods. In our view, the property can be turned around through appropriate rehabilitation, diligent maintenance and aggressive management. Given its location and the quality of the surrounding area, the property would be an asset to the Housing Authority's supply of housing for low income persons whose incomes are too high for the federal public housing program. Agency ownership and operation will also have a positive benefit to the surrounding community.

The estimated cost of the very extensive rehabilitation is \$420,000. Major items will include new roofs, new doors throughout (including steel entry), replacement of 80% of the windows, replacement of all kitchen counters, appliances, carpeting, new water heaters, and air conditioning compressors. The grounds will be landscaped, driveways and parking areas will be resurfaced and all exteriors will be repainted.

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Upon completion it is anticipated that the project can be operated at rents below the market rate for comparable units in the area. Tentative rents are \$325 to \$350 for a two bedroom unit. No operational subsidy will be available, therefore the rents will need to be set at a level sufficient to pay all operating expenses and debt service, with a reasonable amount set aside for a replacement reserve.

On a broader scale, this acquisition is seen by HUD and SHRA Staff as the start of a demonstration program whereby the Agency can exercise a first right of refusal to acquire foreclosed single family and multiple family residences in target areas at a deep discount to meet local community development and low income housing preservation goals. This program, which has the support of both the HUD Regional Administrator and the Area Office Manager, is currently being negotiated with HUD.

FINANCIAL DATA

Exhibit "B" presents a preliminary proforma for the acquisition, rehabilitation and the first year operation of the project. Total project costs are estimated to be approximately \$1,130,000 (\$31,400/unit). Sources of permanent funds will be syndication proceeds through sale of tax credits (\$335,000); a conventional loan based on the maximum supportable debt from rents (\$299,000); a 0% deferred payment loan from the Rental Rehabilitation Block Grant Program (\$208,000) and the Downtown Redevelopment Area Tax Increment Replacement Housing Fund (\$293,000).

Six hundred fifty thousand dollars (\$650,000) of Agency funds is needed immediately for the acquisition and related closing costs. To complete the rehabilitation, an additional \$276,888 (exclusive of Rental Rehabilitation Block Grant) will be necessary within the next six months. The total Agency front end requirements, therefore, would be approximately \$927,000.

A portion (\$299,000) of this front end money will be repaid from the conventional loan proceeds upon completion of the rehabilitation. An additional \$335,000 will be repaid out of syndication proceeds received over a four to five year period.

The \$650,000 for acquisition and closing costs will be taken from the Northeast Neighborhood housing development account (cost center A00890). The balance in the Northeast Neighborhood account following the recommended budget transfer will be \$152,000.

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ENVIRONMENTAL REVIEW

NEPA: No federal funds involved - catagorical exemption.

CEQA: Catagorical exemption - Section 15326 (acquisition of housing for housing assistance programs).

Catagorical exemption Section 15301(a)(d) (restoration or rehabilitation of deteriorated or damaged structures).

POLICY IMPLICATION

This will be the first time the Redevelopment Agency will have acquired an unsubsidized HUD foreclosed property, therefore it represents a new policy direction. As indicated in the background section of this report, Staff and HUD are designing a one year demonstration program. Glen Ellen could be construed as the first project in this overall program.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of August 15, 1988, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES: Amundson, Pettit, Simon, Simpson, Strong, Wooley, Moose

NOES: None

ABSTAIN: Wiggins

ABSENT: Sheldon, Yew

STAFF RECOMMENDATION

Staff recommends approval of the attached resolutions which 1) approve the purchase of the Glen Ellen Estates from the US Department of Housing and Urgan Development for \$643,032, 2) authorize the Executive Director to execute a contract for the purchase, 3) appropriate \$650,000 from the Downtown Redevelopment Area Tax Increment Replacement Housing Fund (Northeast Neighborhood Cost Center A00890) for acquisition and closing costs, 4) directs the Executive Director to investigate additional sources of financing, including limited partnership

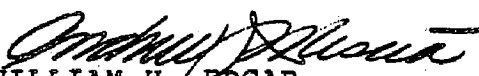
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proceeds, conventional permanent and bridge financing and to report back within 60 days with a full proposal for financing completion and operation of the project, and 5) find that acquisition of this project will be of benefit to the Downtown Redevelopment Project Area.

Respectfully submitted,


WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE, City Manager

1392D

(5)

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO
ON DATE OF

August 23, 1988

ACQUISITION OF GLEN ELLEN ESTATES

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

Section 1: An appropriation of \$650,000 from the Downtown Redevelopment Area Tax Increment Replacement Housing Fund (Northeast Neighborhood Cost Center: A00890) is hereby approved for the acquisition of Glen Ellen Estates and attendant closing costs. The 1988 Capital Improvements Budget is hereby amended to reflect this transfer of funds.

Section 2: Acquisition and rehabilitation of Glen Ellen Estates will be of benefit to the Downtown Redevelopment Project Area in that it will serve as replacement housing under Health and Safety Code Subsection 33334.2(g).

Section 3: The Executive Director is hereby authorized to execute a contract with the U.S. Department of Housing and Urban Development for the acquisition of Glen Ellen Estates.

Section 4: The Executive Director is hereby directed to investigate additional sources of financing and to report back within 60 days on means for financing, completing and operating the project.

CHAIR

ATTEST:

SECRETARY

1100WPP2(105)

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

August 23, 1988

ACQUISITION OF GLEN ELLEN ESTATES BY THE
REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

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

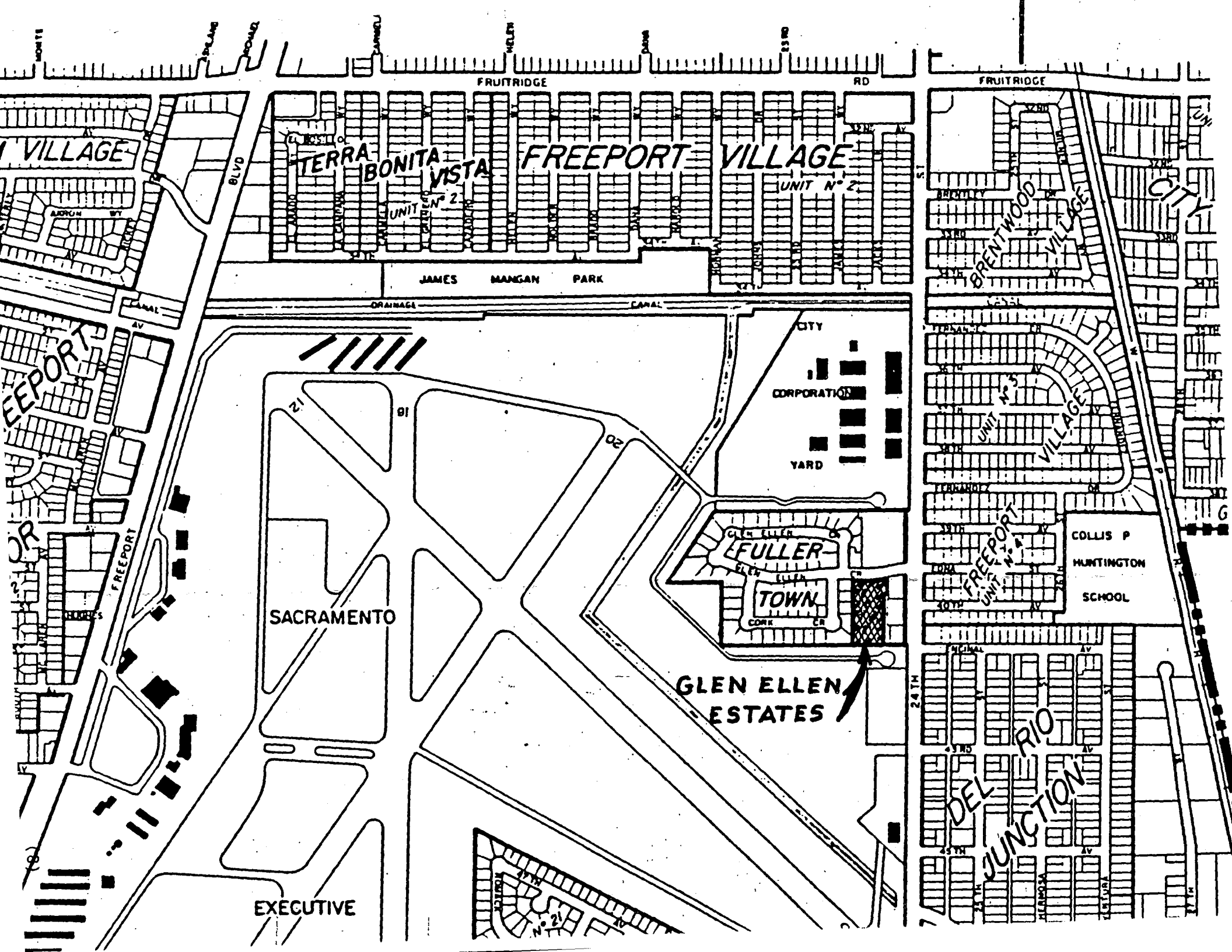
Section 1: Acquisition and Rehabilitation of Glen Ellen
Estates by the Redevelopment Agency of the City of Sacramento
will be of benefit to the Downtown Redevelopment Project Area.

MAYOR

ATTEST:

CITY CLERK

1100WPP2(105)



VILLAGE

TERRA BONITA VISTA

FREEPORT VILLAGE

BRENTWOOD VILLAGE

CITY

FREEPORT

VILLAGE

SACRAMENTO

GLEN ELLEN ESTATES

FULLER TOWN

DEL RIO JUNCTION

EXECUTIVE

FRUITRIDGE RD

RD

FRUITRIDGE

BLVD

JAMES MANGAN PARK

UNIT N° 2

UNIT N° 2

CITY

CORPORATION

YARD

COLLIS P HUNTINGTON SCHOOL

24TH

UNIT N° 2

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

EXHIBIT "B"

FINANCIAL DATA

Project Costs

Acquisition	\$ 643,032
Rehabilitation	416,290
Financing	7,467
Rent Up Reserve	35,100
Closing Costs	3,000
Legal/Consultant Fees	30,000
	<u>\$1,134,889</u>

Permanent Financing

Net Syndication Proceeds	\$ 335,065
Conventional Loan	298,663
Rental Rehab Block Grant	208,000
Tax Increment	293,160
	<u>\$1,134,888</u>

Interim Financing

Tax Increment	\$ 926,888
Rental Rehab Block Grant	208,000
	<u>\$1,134,888</u>

First Year Operation

<u>Rent</u>	\$ 325
Gross Scheduled Income	<u>\$ 140,000</u>
Vacancy @ 5%	7,020
Effective Gross	133,380
Operating Expense @ 200/U/M	86,400
Property Tax	11,653
Net Operating Income	35,327
Debt Service	32,116
Replacement Reserve	3,212
Cash Flow	-0-