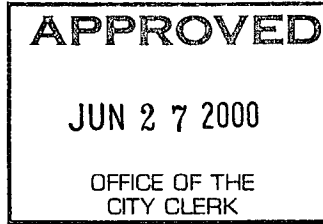




**Sacramento
Housing &
Redevelopment
Agency**

June 27, 2000

16



Housing Authority
of the City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: MORTGAGE REVENUE BOND PROPOSAL: GREENFAIR APARTMENTS

LOCATION & COUNCIL DISTRICT 701-702 Fairgrounds Drive – District 5

RECOMMENDATION

Staff recommends approval of the attached resolution which:

- 1) indicates the willingness of the Housing Authority of the City of Sacramento to issue \$13,400,000 in tax-exempt mortgage revenue bonds to provide acquisition, rehabilitation, and permanent financing for the Greenfair Apartments, a senior citizen development located within the City of Sacramento;
- 2) authorizes an application to the California Debt Limit Allocation Committee for allocation authority to issue the bonds.

CONTACT PERSONS

Beverly Fretz-Brown, Director of Development Services, 440-1357
Lisa Bates, Program Manager, Housing Finance, 440-1328

FOR COUNCIL MEETING OF June 27, 2000

SUMMARY

The Greenfair Apartments include 306 highrise and 80 low-rise apartments for the elderly, all of which are at risk of the termination of project-based Section 8 assistance and conversion to unrestricted rents. The applicant proposes to acquire and rehabilitate the apartments and maintain the Section 8 federal assistance for the project's residents. This report recommends adoption of a resolution to indicate the Housing Authority's intent to issue mortgage revenue bonds to provide acquisition, rehabilitation, and permanent financing for the Greenfair Apartments and authorize an application to the California Debt Limit Allocation Committee for authority to issue the bonds. These actions will not bind the Housing Authority to issue bonds

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Housing Authority of the City of Sacramento

June 27, 2000

Page 2

until and unless all other necessary actions and approvals are taken or received in accordance with all applicable laws and to the satisfaction of the City Council, acting as the Housing Authority of the City of Sacramento.

The Agency will return to the Council within 45 days, in a public hearing, with final rehabilitation and financing plans for the development.

COMMISSION ACTION

At its meeting July 5, 2000, the Sacramento Housing and Redevelopment Commission will receive a report indicating the action taken by City Council with regard to the attached resolutions. The project will be considered by the Commission at its meeting of July 19, 2000, prior to the Council's public hearing on the development.

BACKGROUND

Preservation Properties, LLC, is under contract to purchase the Greenfair Apartments, which totals 386 units located at Fairgrounds Drive and Broadway in Sacramento. (A map is included as Attachment I). The complex includes two highrises, with 306 apartments, and 80 low-rise apartments, all housing senior citizens. All of the units are covered by Section 8 project-based assistance. The term of the Section 8 contract is expiring, and the existing owners have the right to end the assistance and sell the development. The applicant intends to renew the Section 8 contract to avoid the potential displacement of the residents, who are very low-income.

Greenfair Towers I and II are 9-story reinforced concrete structures built in 1975. They contain, respectively, 112 and 194 one-bedroom units averaging 606 square feet. In addition, the project includes three different low-rise apartments with 28, 28 and 24 units, respectively, split evenly between 1- and 2-bedroom apartments. The entire development was part of the Department of Housing and Urban Development's Operation Breakthrough program which included six different building systems, some of which contained experimental construction materials. The highrise apartments (Greenfair Towers I and II) were constructed conventionally; the low-rise apartments were modular units with conventional materials, assembled on-site.

The Developer has conducted a capital needs assessment and proposes to renovate the buildings to cure deferred maintenance items and bring them up to current market standards. Immediate rehabilitation expenditures on-site total approximately \$2 million in rehabilitation costs or \$5,181 per unit. A final scope of rehabilitation will be provided to the City Council at the next hearing on this development in approximately 45 days.

The proposed scope of rehabilitation includes roofing, new heating and cooling systems, and upgrading of individual units with new electrical fixtures, floor and window coverings, replacement of kitchen appliances, new cabinets in the kitchens and baths, replacement of three boilers, and other improvements.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Housing Authority of the City of Sacramento

June 27, 2000

Page 3

In addition to these physical improvements the property will offer resident services to the tenants including recreation and consumer education programs. Amenities include sewing and craft rooms, pool and recreation area, tennis courts, jacuzzi, laundry, beauty shop, full common kitchen and dining room, and two libraries. The services will be provided through a non profit entity.

The principals of Preservation Properties LLC include Western America Properties, Gary Squier, David Perel, and Alex Tucciarone. Mr. Squier and Mr. Perel have had 25 years of experience in housing development and tax-exempt bond finance. Western America Properties is a property management company with 800 units in its portfolio, and will manage the Greenfair Apartments. Preservation Properties LLC has acquired and rehabilitated five HUD-assisted complexes in Los Angeles and will maintain a long-term ownership interest in Greenfair.

Bond financing. As a public entity, the Authority can issue tax-exempt bonds, whereby the proceeds can provide acquisition and rehabilitation financing for multifamily housing projects. Because interest paid on the bonds is exempt from federal and state income tax, bondholders will accept a below-market yield from the bonds. These savings are, in turn, passed on to the project owner in the form of a below-market rate loan, with interest rates approximately one to two percent below prevailing market rates. In general recipients of bond financing are required to undertake rehabilitation work and set aside units for rental to families earning less than 50 percent of the area median income, adjusted for family size.

The project will have first mortgage financing from the proceeds of the bonds, guaranteed by the Federal Home Loan Bank (FHLB) of San Francisco, which will give the bonds a AAA rating. The participating FHLB member will be Washington Mutual Bank.

Project rehabilitation standards. Existing projects financed with tax-exempt mortgage revenue bonds are required to undertake rehabilitation with a value of at least 15 percent of the acquisition cost of the subject property's improvements (that is, total project acquisition cost, minus value of the land). As part of the Agency's mortgage revenue bond policies, all acquisition and rehabilitation projects financed with tax-exempt bonds must conform to standards requiring: 1) that all health and safety deficiencies existing on-site be corrected; and 2) that major systems have expected lives of 15 years or more upon completion of the rehabilitation, or that adequate reserves be established and funded to replace the systems as needed. Staff has evaluated and determined that the proposed rehabilitation scope of work meets these requirements.

Low-income Set-aside Requirements. As a condition for receiving the benefits of this below-market rate financing, federal law requires that project units be set aside for targeted income groups for at least 15 years. The set-aside requirements are: at least 20 percent of projects' total units rented to households earning 50 percent or below of the area median income; or alternately, 40 percent of project units rented to households at or below 60 percent of area median.

Although Agency policy is to require that the former (20 percent of the units at 50 percent of median income), the Agency is recommending a waiver of the policy on this project to allow for

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Housing Authority of the City of Sacramento

June 27, 2000

Page 4

10 percent of the rents to be underwritten at 50 percent of median income. This waiver is being recommended because the project will maintain 100 percent Section 8 assistance and thereby not adversely affect the rent that residents pay. With Section 8 assistance, residents will continue to not pay rent of more than 30 percent of their income for rent, adjusted for household size.

State law governing bond-financed developments further requires that monthly rents for the set-aside units be limited to 30 percent of the targeted group's monthly income, adjusted for household size. The project's set-aside requirements will be specified in a regulatory agreement between the Housing Authority and the developer, to be executed upon closing of the bond sale.

State and Local Approval Process. The Housing Authority must apply for and receive authorization from the California Debt Limit Allocation Committee (CDLAC) prior to issuing mortgage revenue bonds. (Refunding bond issues and bonds issued on behalf of qualified 501(c)(3) nonprofit organizations do not require CDLAC authorization.) Staff proposes to submit an application for consideration in the second funding round this year. If approved, the bond authority to be drawn against CDLAC's 2000 volume cap on behalf of Preservation Properties LLC will be an amount not exceeding \$13,400,000.

Project Inducement. Prior to granting bond allocation, CDLAC requires that an "inducement" resolution be adopted by the entity proposing to issue the bonds. Inducement at this time will also allow the developer to be reimbursed from bond issue proceeds for acquisition and rehabilitation expenses that it has and will incur. Staff thus recommends that the City, acting as the Housing Authority, adopt the attached resolution to indicate its intent to issue bonds to finance the developer's purchase and rehabilitation of the project. Adoption of the resolution will not bind the City to issue bonds until and unless all other necessary actions are taken in accordance with all applicable laws.

Staff will return to the Council within the next 45 days for a public hearing with final details on the project's overall financing plan and rehabilitation. If bond authority is approved, the Agency will return with a final report to City Council to authorize the regulatory agreement and fees that will be due the Agency.

FINANCIAL CONSIDERATIONS

Adoption of the attached resolution will not result in any direct financial impact to the City or the Housing Authority. The Agency does anticipate that in addition to issuing bonds, it may provide a loan to the project not exceeding \$1,000,000. The SHRA Loan Committee will review this request on June 29, 2000. In addition, the applicant is negotiating with HUD, under its "Mark up to Market" program, for new rent levels allowed for opt-out developments that renew their Section 8 contracts. The developer's preliminary proposal is found in Attachment II.

The developer will be responsible for payment of a processing fee and posting of a one-half percent performance deposit required by CDLAC. Staff will report back with specific financial considerations of the proposed bond financing which will include the Agency's collection of fees, both upon sale of the bonds and also semi-annually for the term of low-income set-aside

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Housing Authority of the City of Sacramento
June 27, 2000
Page 5

requirements. Mortgage revenue bonds, in general, do not represent a financial obligation of the Housing Authority of the City of Sacramento.

POLICY CONSIDERATIONS

City housing policies give high priority to preserving the affordability of HUD-assisted housing which may be converted to market rate upon the termination of their Section 8 contracts. Greenfair Apartments is a senior citizen housing complex whose residents would be severely affected by such actions. As part of the acquisition/rehabilitation plan, the developer intends to renew the HUD Section 8 assistance to protect the tenants against displacement.

The issuance of mortgage revenue bonds is consistent with previously approved policy and the Agency's goals of promoting the preservation of affordable housing. The Agency is recommending a waiver of its policy to reduce the required number of units from 20 percent to 10 percent to be assisted at 50 percent of median income. This waiver is being recommended to assist in the financial feasibility of the project. Because the project and residents will continue to receive Section 8 assistance, residents who are very low income will not be adversely impacted.

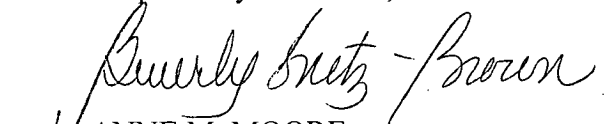
ENVIRONMENTAL REVIEW

The proposed actions are exempt from CEQA per Guidelines Section 15301 and 15310. Any future use of federal HOME funds would be categorically excluded from NEPA per 24CFR Part 58.35(a)(6).

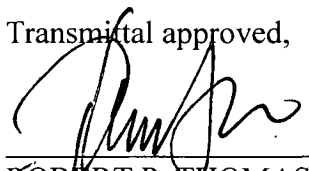
M/WBE CONSIDERATIONS

The developer will comply with the Agency's M/WBE policy.

Respectfully submitted,

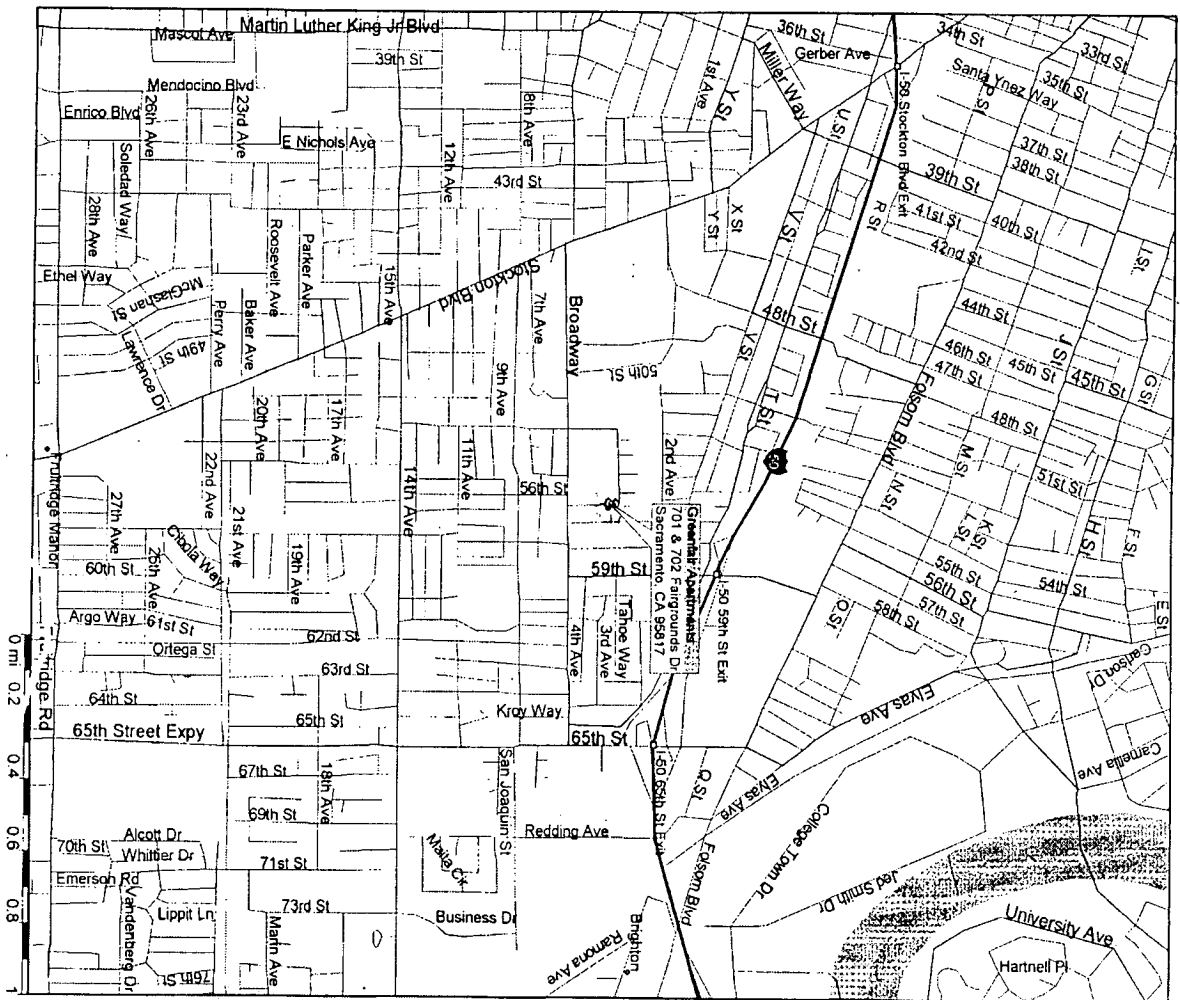

for ANNE M. MOORE
Executive Director

Transmittal approved,



ROBERT P. THOMAS
City Manager

Site Location Map



DEVELOPER'S PRELIMINARY PROPOSAL

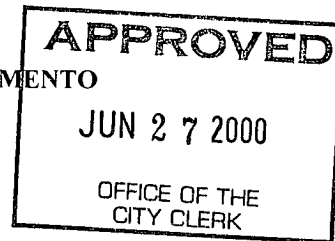
Greenfair Apartments

Address		GF Tower I 701 Fairgrounds Dr.	GF Tower II 702 Fairgrounds Dr.	Alcoa 801-891 Fairgrounds Dr.	Boise Cascade 637-643 Fairgrounds Dr.	Christina 5327-5423 Broadway
Number of Units	386	112	194	24	28	28
Year Built	1975					
Unit Mix						
	Total					
1 BD (539-648 sq. ft.)	348	112	194	12	14	16
2 BD (649-729 sq. ft.)	38			12	14	12
	386	112	194	24	28	28
Proposed Rents						
1 BD	594					
2 BD	714					
Resident Facilities						
	Party rooms, sewing and crafts room, pool & recreation area, tennis courts jacuzzi, multipurpose room, beauty shop, kitchen, dining room, game room two sitting rooms, two libraries					
Proposed Construction Costs						
	\$ 1,477,115	\$ 341,652	\$ 788,600	\$ 130,725	\$ 130,725	\$ 85,413
Per unit	\$ 3,827	\$ 3,050	\$ 4,065	\$ 5,447	\$ 4,669	\$ 3,050
Sources and Uses of Funds						
Sources						
		<i>Per Unit</i>	<i>Per Square Foot</i>			
Bond Proceeds	\$ 13,400,000	\$ 34,715				
Investor Equity	\$ 6,191,791	\$ 16,041				
Developer Equity	\$ -	\$ -				
Developer Fee Note	\$ 737,259	\$ 1,910				
Agency Loan	\$ 1,000,000	\$ 2,591				
Seller carryback loan	\$ 2,200,000					
Total Sources of Funds	\$ 23,529,050	\$ 52,666				
Uses						
		<i>Per Unit</i>	<i>Per Square Foot</i>			
Property Acquisition	\$ 18,515,050	\$ 47,966	\$ 83.43			
Construction	\$ 1,930,000	\$ 5,000	\$ 8.70			
Contractor Overhead/Profit	\$ -	\$ -	\$ -			
Financing Costs	\$ 633,676	\$ 1,642	\$ 2.86			
Legal/Title/Taxes/Insurance	\$ 162,000	\$ 420	\$ 0.73			
Architectural/Engineering	\$ 68,600	\$ 178	\$ 0.31			
Operating Reserves	\$ 371,525	\$ 963	\$ 1.67			
Contingency	\$ 648,199	\$ 1,679	\$ 2.92			
Developer Fee	\$ 1,200,000	\$ 3,109	\$ 5.41			
Total Uses of Funds	\$ 23,529,050	\$ 60,956	\$ 106.02			
Management - Operations						
Proposed Developer	Preservation Properties LLC					
Property Management	Western America					
Operations Budget	\$ 1,389,600	\$ 3,600				
Operating/Replacement Reserves	\$ 96,500	\$ 250				
Letter of Credit Provided By:	Federal Home Loan Bank					
Tax Credit Investor	To be determined					

RESOLUTION NO. 2000-009

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO

ON DATE OF



**GREENFAIR APARTMENTS (701-712 FAIRGROUNDS)
DECLARATION OF INTENT TO
REIMBURSE EXPENDITURES FROM THE PROCEEDS OF
TAX-EXEMPT OBLIGATIONS AND DIRECTING CERTAIN ACTIONS**

WHEREAS, the Housing Authority of the City of Sacramento (the "Authority") intends to issue tax-exempt obligations (the "Obligations") for the purpose, among other things, of making a loan to Preservation Properties, LLC, a California limited liability company, or a limited partnership or limited liability company formed by Preservation Properties, LLC, for purposes of the proposed financing (the "Developer"), the proceeds of which shall be used by the Developer to finance the acquisition, rehabilitation and development of a 386-unit multifamily housing facility located at 701-702 Fairgrounds, Sacramento, California and commonly known as Greenfair Apartments (the "Project"); and

WHEREAS, United States Income Tax Regulations section 1.103-18 provides generally that proceeds of tax-exempt debt are not deemed to be expended when such proceeds are used for reimbursement of expenditures made prior to the date of issuance of such debt unless certain procedures are followed, among which is a requirement that (with certain exceptions), prior to the payment of any such expenditure, the issuer must declare an intention to reimburse such expenditure; and

WHEREAS, it is in the public interest and for the public benefit that the Authority declare its official intent to reimburse the expenditures referenced herein;

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

Section 1. The Authority intends, subject to applicable law and due legislative review, to issue the Obligations for the purpose of paying the costs of financing the acquisition, construction and development of the Project.

Section 2. The Authority declares that it reasonably expects that a portion of the proceeds of the Obligations will be used for reimbursement of expenditures for the acquisition, construction and development of the Project that are paid before the date of initial execution and delivery of the Obligations.

Section 3. The maximum amount of proceeds of the Obligations to be used for reimbursement of expenditures for the acquisition, construction and development of the Project that are paid before the date of initial execution and delivery of the Obligations is not to exceed \$13,400,000.

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

Section 4. The foregoing declaration is consistent with the budgetary and financial circumstances of the Authority in that there are no funds (other than proceeds of the Obligations) that are reasonably expected to be (i) reserved, (ii) allocated or (iii) otherwise set aside, on a long-term basis, by or on behalf of the Authority, or any public entity controlled by the Authority, for the expenditures for the acquisition and construction of the Project that are expected to be reimbursed from the proceeds of the Obligations.

Section 5. The Developer shall be responsible for the payment of all present and future costs in connection with the issuance of the Obligations, including, but not limited to, any fees and expenses incurred by the Authority in anticipation of the issuance of the Obligations, the cost of printing any official statement, rating agency costs, bond counsel fees and expenses, underwriting discount and costs, trustee fees and expense, and the costs of printing the Obligations. The payment of the principal, redemption premium, if any, and purchase price of and interest on the Obligations shall be solely the responsibility of the Developer. The Obligations shall not constitute a debt or obligation of the Authority.

Section 6. The law firm of Jones Hall, A Professional Law Corporation, is named as bond counsel to the Authority in connection with the issuance of the Obligations. The fees and expense of bond counsel and any financial advisor employed by the Authority in connection with the issuance of the Obligations are to be paid solely from the proceeds of the Obligations or directly by the Developer.

Section 7. The appropriate officers or staff of the Authority are authorized, for and in the name of and on behalf of the Authority, to make an application to the California Debt Limit Allocation Committee for an allocation of private activity bonds for the financing of the Project.

Section 8. The adoption of this Resolution shall not obligate (i) the Authority to provide financing to the Developer for the acquisition, construction and development of the Project or to issue the Obligations for purposes of such financing; or (ii) the Authority, of or any department of the Authority or the City of Sacramento to approve any application or request for, or take any other action in connection with, any environmental, General Plan, zoning or any other permit or other action necessary for the acquisition, construction, development or operation of the Project.

Section 9. This resolution shall take effect immediately upon its adoption.

CHAIR

ATTEST:

SECRETARY

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____