6.1

ONE COMMUNITY ONE VISION

Sacramento Housing & Redevelopment Agency

July 19, 2000

APPROVED

JUL 25 2000

OFFICE OF THE CITY CLERK

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: TAX EXEMPT BOND PROPOSAL- GREENFAIR APARTMENTS

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

RECOMMENDATION

Staff recommends approval of the attached resolution which signifies the City Council of the City of Sacramento held a Tax Equity and Fiscal Responsibility Act (TEFRA) public hearing.

CONTACT PERSONS

John Dangberg, Director of Community Development - City, 440-1357
Lisa Bates, Program Manager, 440-1328

FOR COUNCIL MEETING OF July 25, 2000

SUMMARY

The Greenfair Apartments include 306 high-rise 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 presents for adoption the attached resolution signifying the City Council of the City of Sacramento held a Tax Equity and Fiscal Responsibility Act (TEFRA) public hearing. This action will not bind the Housing Authority to issue bonds 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.

LOAN COMMITTEE

On June 28, 2000, the Sacramento Housing and Redevelopment Agency's Loan Committee reviewed and approved a $1,000,000 HOME loan to assist in the acquisition, rehabilitation and permanent financing of this project. This loan commitment is consistent with authorities delegated by the Council to the Loan Committee and is conditioned upon an allocation of tax-exempt bonds being allocated to this project and the Council approving the issuance of these bonds. Since the approval of the loan, the loan terms have changed slightly and the Agency will be presenting these changes to Loan Committee for approval on July 13th. These changes relate to a $800,000 reduction in the tax-exempt bond issuance due to a higher interest rate. An increased deferred developer fee and seller carryback financing make up this reduction. As these loans are required to be paid off within 10 and 15 years, respectively, the Agency loan has reduced the interest rate from 5% to 4% and deferred repayment for 2 years.

COMMISSION ACTION

It is anticipated that at its meeting of July 19, 2000, the Sacramento Housing and Redevelopment Commission will adopt a motion recommending approval of the attached resolution. In the event it fails to do so, you will be advised prior to your July 25, 2000 meeting.

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 high-rises, 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 all 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. Staff has confirmed that the units included in this proposed project were not constructed with experimental materials. The high-rise apartments (Greenfair Towers I and II) were constructed conventionally; the low-rise apartments are modular units constructed with conventional materials and 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.

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.

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 it 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 tax-exempt 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.

The Agency is also recommending issuing taxable bonds that will be purchased by the seller's as subordinate seller carry back financing. The use of taxable bonds helps the project score better in the CDLAC application process by demonstrating leverage of tax exempt bonds thereby reducing the requested allocation of bond authority from CDLAC. The issuance of taxable bonds does not require an allocation authority from CDLAC. These bonds will be sold exclusively to the current sellers of the property. The sellers will be restricted from remarketing the bonds in the bond market. It is anticipated that these bonds will have a 15 year term.

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 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 pay no 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 tax-exempt mortgage revenue bonds. Staff has submitted an application for consideration in the second funding round this year. If approved, the total taxable and tax-exempt bonds issued will not exceed $15 million.
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 to the Agency.

FINANCIAL CONSIDERATIONS

Adoption of the attached resolution will not result in any direct financial impact to the City or the Housing Authority. In a separate action, the SHRA Loan Committee approved a loan of $1,000,000 for the acquisition and rehabilitation of the proposed project on June 28, 2000. Staff anticipates the committee will approve slight modifications to the terms on July 13, 2000. This loan commitment is consistent with authorities delegated by the Council to the Loan Committee and is conditioned upon an allocation of tax-exempt bonds being allocated to this project and the Council approving the issuance of these bonds. (A cash flow proforma is included as Attachment II.)

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 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 requirements. Mortgage revenue bonds 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 tax-exempt 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 policies to 1) reduce the required number of units from 20 percent to 10 percent to be assisted at 50 percent of median income; 2) make payment in lieu of taxes to the City of Sacramento; and 3) issue taxable bonds for purchase by non sophisticated buyers who are the current sellers of the project. These waivers are being recommended to assist in the financial feasibility of the project and to improve the chances of receiving a bond allocation. 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.

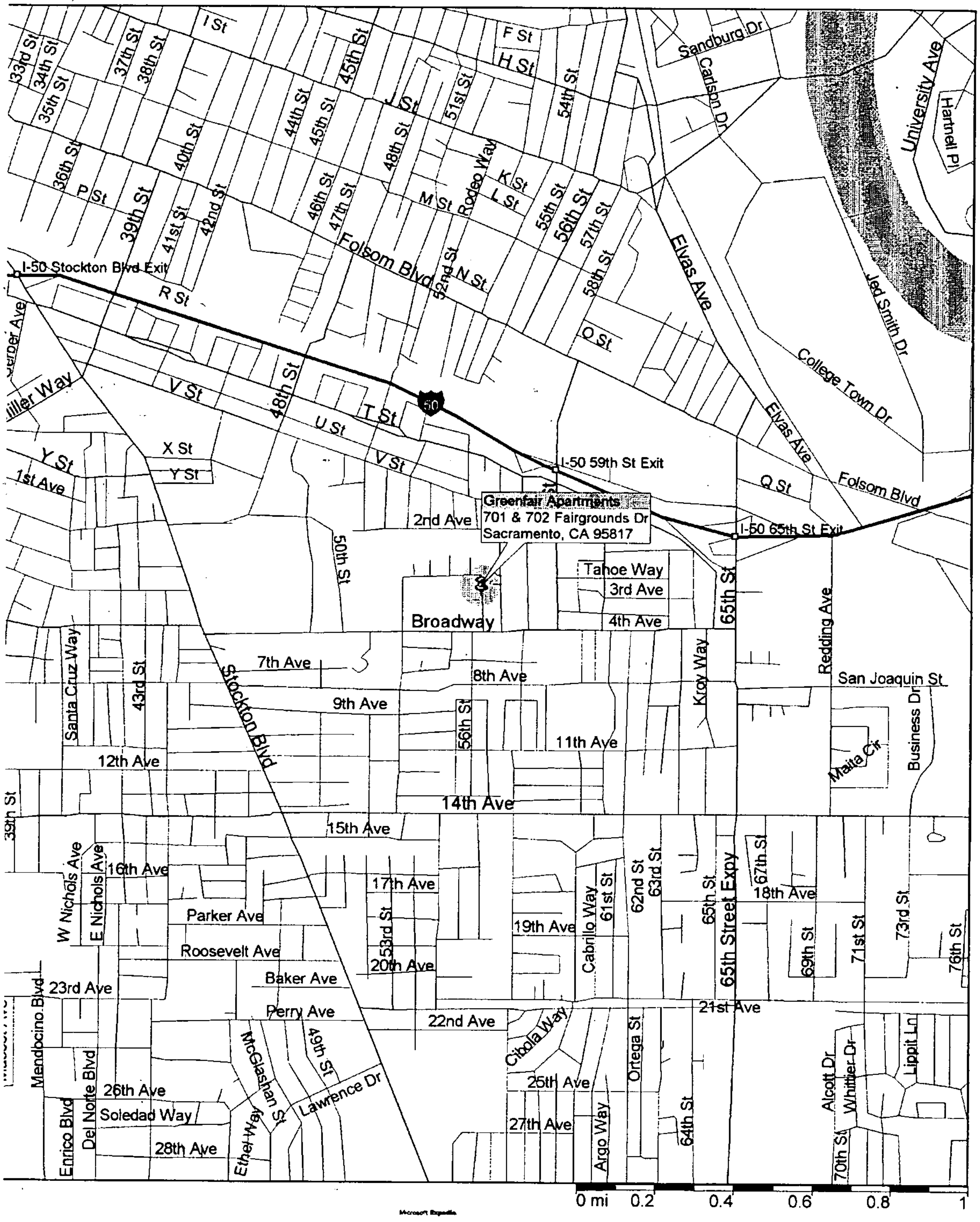
Respectfully submitted,

ANNE M. MOORE
Executive Director

Transmittal approved,

ROBERT P. THOMAS
City Manager

Site Location Map



Greenfair

Rent as % AMI	FMR (10/00)	UNITS	UNIT TYPE	Unit Description	Gross Rent	Utilities	Rent - Utilities	Gross Pt Income	Market Rents	% of FMR	Mkt Income	OTHER INCOME	
60%	515	113	Tower I	0	594	0	594	67,122	670	130%	908,520	Laundry	11,160
60%	515	193	Tower II	0	594	0	594	114,642	670	130%	1,551,720	Retail	3,600
60%	515	23	ABC	1-br 60%	594	40	554	12,742	630	122%	173,880	Other	25,000
60%	645	22	ABC	1-br 60%	714	50	664	14,608	780	121%	205,920	Other	
60%	515	16	CW*	1-br 60%	594	40	554	8,864	630	122%	120,960	Total	39,760
60%	645	8	CW	1-br 60%	714	40	674	5,392	630	98%	60,480		
100%	515	3	HOME	1-br 50%	495	40	455	1,365			-		
100%	645	8	HOME	2-br 60%	714	50	664	5,312			-		
		386			Total Annual			2,760,564			3,021,480	7,828	652
		298							Annual Surplus		260,916		
							PUPA	676					

ASSUMPTIONS

Residential Income inflator		2.50%	Unit Operating Expenses	$ 3,444
Laundry/Misc. inflator		2.50%		
Operating Expenses inflator		3.50%	Replace Res rate of inc	2.0%
Vacancy		5.00%	Property Tax increase	0.0%
Reserves/Unit	$	250		
Appraisal Cap Rate		7.50%		
Acquisition cost	$	18,412,200	45,000	
Net price to Seller	$	17,370,000		
Broker	$	1,042,200	2,700	

				1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Residential Income				2,760,564	2,760,564	2,760,564	2,760,564	2,760,564	2,760,564	2,760,564	2,760,564	2,760,564	2,760,564	2,760,564	2,760,564	2,760,564	2,760,564	2,760,564
Retail				3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600
Other				39,760	39,760	39,760	39,760	39,760	39,760	39,760	39,760	39,760	39,760	39,760	39,760	39,760	39,760	39,760
Additional Market Rents				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GROSS RENTAL INCOME				2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924
Vacancy				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EFFECTIVE GROSS INCOME				2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924	2,803,924
Other income/subsidy																		
Operating Expenses		-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R E Taxes; value cap : rat	8%	0.00%		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Replacement Reserve		$ 250		96,500	96,500	96,500	96,500	96,500	96,500	96,500	96,500	96,500	96,500	96,500	96,500	96,500	96,500	96,500
NOI				2,707,424	2,707,424	2,707,424	2,707,424	2,707,424	2,707,424	2,707,424	2,707,424	2,707,424	2,707,424	2,707,424	2,707,424	2,707,424	2,707,424	2,707,424
Primary Debt Service			$ 1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451
Agency Loan Repayment					40,000	40,000	40,000	-	-	-	-	-	-	-	-			
Total Debt Service				1,031,451	1,071,451	1,071,451	1,071,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451	1,031,451
CASHFLOW AFTER DEBT SERVICE				1,675,973	1,635,973	1,635,973	1,635,973	1,675,973	1,675,973	1,675,973	1,675,973	1,675,973	1,675,973	1,675,973	1,675,973	1,675,973	1,675,973	1,675,973
	Principal	%	term (years)															
Developer Fee Repayment $	720,599	6.0%	10	97,906	97,906	97,906	97,906	97,906	97,906	97,906	97,906	97,906	97,906					
Cashflow after Dev Fee Payment				1,578,067	1,538,067	1,538,067	1,538,067	1,578,067	1,578,067	1,578,067	1,578,067	1,578,067	1,578,067	1,675,973	1,675,973	1,675,973	1,675,973	1,675,973
Surplus Cash from Sec 8 Rents				260,916	266,134	271,457	276,886	282,424	288,072	293,834	299,710	305,705	311,819	318,055	324,416	330,905	337,523	344,273
Cashflow After Deve Fee Payment plus surplus cash				1,838,983	1,804,201	1,809,524	1,814,953	1,860,491	1,866,139	1,871,901	1,877,778	1,883,772	1,889,886	1,994,029	2,000,390	2,006,878	2,013,496	2,020,247
Amortized Seller Financing $	2,350,000	6.0%	15	241,962	241,962	241,962	241,962	241,962	241,962	241,962	241,962	241,962	241,962	241,962	241,962	241,962	241,962	241,962
Social Services				35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	
Net Cash Flow				92,591	76,655	100,816	125,061	37,251	61,613	86,009	110,419	134,822	159,199	281,431	321,783	499,847	525,726	586,515
Debt Coverage Ratio				1.09	1.08	1.10	1.12	1.05	1.07	1.08	1.10	1.12	1.14	1.23	1.25	1.42	1.44	1.46

Attachment III

RESOLUTION NO. 2000-452

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SACRAMENTO APPROVING THE ISSUANCE OF TAX-EXEMPT AND/OR OBLIGATIONS AND DIRECTING CERTAIN ACTIONS

WHEREAS, the Housing Authority of the City of Sacramento (the "Issuer") intends to issue tax-exempt obligations and/or taxable obligations in an amount not to exceed $15,000,000 (the "Obligations") for the purpose, among other things, of making a loan to Preservation Properties, LLC, or a limited partnership or limited liability company formed by Preservation Properties, LLC (the "Developer"), the proceeds of which shall be used by the Developer to finance the acquisition, rehabilitation and development of a multifamily housing rental facility located at 701-702 Fairgrounds Drive, Sacramento, California and commonly known as Greenfair Apartments (the "Project"); and

WHEREAS, the Issuer is authorized by Chapter 1 of Part 2 of Division 24 of the Health and Safety Code of the State of California to issue and sell revenue bonds for the purpose of financing the acquisition, construction and development of multifamily rental housing facilities to be occupied in part by very low income tenants; and

WHEREAS, in order for the Obligations to be considered "qualified exempt facility bonds" under Section 142(a) of the Internal Revenue Code of 1986, as amended (the "Code"), Section 147(f) of the Code requires that the "applicable elected representatives" of the area in which the Project is to be located hold a public hearing on and approve the issuance of the Obligations; and

WHEREAS, this City Council is the elected legislative body of the City; and

WHEREAS, a notice of public hearing in a newspaper of general circulation in the City has been published, to the effect that a public hearing would be held by this City Council regarding the issuance of the Obligations by the Issuer and the nature and location of the Project; and

WHEREAS, this City Council held said public hearing on the published date, at which time an opportunity was provided to present arguments both for and against the issuance of such Bonds and the nature and location of the Project; and

---

FOR CITY CLERK USE ONLY

RESOLUTION NO.: ___________

DATE ADOPTED: ___________

WHEREAS, it is in the public interest and for the public benefit that the City approve the issuance and delivery of the Obligations for the purpose of financing the acquisition, construction and development of the Project;

WHEREAS, the City shall not have any liability for the repayment of the Obligations or any responsibility for the Project;

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

Section 1. City hereby finds and determines that the foregoing recitals are true and correct.

Section 2. To express the City's consent to the issuance of the Obligations and for the purpose of fulfilling the requirement of Section 147(f) of the Code, the City hereby approves the issuance and delivery of the Obligations.

Section 3. This resolution shall take effect upon its adoption.

____
MAYOR

ATTEST:

____
CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: __________

DATE ADOPTED: __________