RESOLUTION NO. 2004-615

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF JUL 27 2004

APPROVING MODIFICATIONS TO THE INVESTMENT HOME IMPROVEMENT LOAN PROGRAM

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

Section 1. The modifications to the Investment HOME Improvement Loan Program ("Program"), as described in the accompanying staff report, are hereby approved.

Section 2. The areas that are considered "target areas" under the Program shall be all City Redevelopment Areas and the Meadowview neighborhood as defined in the map attached to the staff report.

Heather Fargo

MAYOR

ATTEST:

Molino

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: 2004-615

DATE ADOPTED: JUL 27 2004

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Sacramento Housing & Redevelopment Agency

July 20, 2004

APPROVED
JUL 27 2004
OFFICE OF THE CITY CLERK

City Council of the City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: APPROVAL OF THE REVISIONS TO THE AGENCY'S INVESTMENT HOME IMPROVEMENT LOAN PROGRAM FOR RENTAL PROPERTIES BETWEEN ONE AND TEN UNITS

LOCATION & COUNCIL DISTRICT - Citywide

RECOMMENDATION

Staff recommends that the City Council adopt the attached resolution on page 26 which:

- authorizes the Agency to implement programmatic changes to the Investment Home Improvement Loan Program; and
- establishes all of the City Redevelopment Areas and Meadowview as "target areas" under the loan program.

CONTACT PERSONS

Lisa Bates, Director, Community Development - City, 440-1337
Emily Hottle, Housing Finance Analyst, 440-1399, ext. 1420

FOR COUNCIL MEETING OF – July 22, 2004

SUMMARY

This report recommends the approval of amendments to the Agency's Investment HOME Improvement Loan Program for small investor properties throughout the City. In addition to the adoption of the amendments to the program, this report recommends the approval of all City Redevelopment areas and Meadowview as "target areas" under the program.

COMMISSION ACTION

At its meeting on July 7, 2004 the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolutions. The votes were as follows:

AYES:	Burns, Burruss, Coriano, Gore, Hoag, McCarty, Piatkowski, Simon
NOES:	None
ABSENT:	Farley, Harland, Stivers

BACKGROUND

Current Investment HOME Improvement Loan Program

The Agency currently provides the Investment HOME Improvement Loan Program as its product for the acquisition and rehabilitation of small investment properties throughout the City and County of Sacramento. The Investment HOME program is funded using HOME funding from the U.S. Department of Housing and Urban Development (HUD), and is administered by the Development Services Department of the Agency. The Investment HOME program provides low interest financing to owners of investment property of ten or fewer units, in exchange for the regulation of a portion of the units at affordable rental rates. In addition to the requirement to restrict the rent and occupancy of a portion of the units, the owner is also required to meet several federal requirements during the rehabilitation, including lead based paint remediation, relocation, and the payment of State prevailing wages.

In recent years, as market conditions have changed, the Agency has seen a decline in the marketability of the Investment HOME program. Agency staff believes the current program is no longer marketable due to the increase in market rental rates throughout the City and County, coupled with lower interest rates from conventional lenders. In the early spring of 2003, staff did an informal survey of other jurisdictions throughout California to investigate what programs targeting small investor properties, if any, were successful. The results of this survey showed that almost all jurisdictions in California were facing similar challenges with small investor programs. Any financial benefit of the public funding offered was outweighed by the affordable rental requirements. Similar to Sacramento, most jurisdictions had either abandoned their investment property programs, or had little to no interest from property owners in the programs.

Proposed Revisions

Due to the decline in interest in the program, and the desire of the Agency to have a marketable product to offer investor owners, especially in some troubled neighborhoods, Agency staff formed a team to review the existing program and to propose revisions. Staff considered both the marketability of the program to investor/owners, as well as the requirements of various funding sources in the recommended changes. The proposed modifications to the loan program can be summarized in four categories: rehabilitation standards, financial modifications, regulatory requirements, and locational distinctions.

Rehabilitation Standards

The current Investment HOME Program requires that all units financed under the program meet or exceed the Agency minimum rehabilitation standards for rental properties. The standards include substantial structural requirements as well as more aesthetic improvements to the units, and are equally applied to all properties, regardless of initial condition. In addition, the community has raised concerns about the curb appeal of the properties, but which might not address the basic living standards. To respond to these concerns, the Agency has proposed modifications that will allow for varying degrees of rehabilitation, as well as to ensure that all requirements associated with the funding are met.

In the proposed revisions, the current standards have been re-classified into three "tiers" of rehabilitation, intended to address three "tiers" of housing standards: livability, utility, and beautification. The following table summarizes the three tiers and provides examples of work performed under each:

Tier	Description	Examples
Tier 1	Improvements to the structural and mechanical envelope of the structure. Intended to improve basic livability of the structure. Tier 1 also addresses minimum standards under HUD funding requirements.	▪ Code compliance ▪ Foundation repair/improvement ▪ Weather protection ▪ Electrical repairs ▪ Lead based paint abatement ▪ ADA requirements
Tier 2	Improvements to the structure that provide increased utility or comfort to the resident. Tier 2 is intended to address components of the unit that may be deteriorated or antiquated.	▪ Window replacement ▪ HVAC replacement/addition ▪ Floor covering replacement ▪ Replacement of appliances ▪ Additional insulation
Tier 3	Improvements to the structure that provide beautification and "street appeal". Tier 3 is intended to provide finishing touches to the property after structural and utility improvements have been made.	▪ Landscaping and irrigation ▪ Fence repair/replacement ▪ Driveway improvements ▪ Exterior lighting improvements ▪ Exterior painting

A full list of the rehabilitation standards by tier can be found in Attachment I.

The division of the rehabilitation standards into three tiers provides a method by which funding can be associated with specific rehabilitation needs. The proposed revisions include a division of funding based on the level of improvements needed. Every unit must meet Tier 1 standards before being offered funding for Tier 2 and 3 improvements. If the property is found to meet the Tier 1 standards, a Tier 2 and 3 loan will be offered; if it is found not to meet the Tier 1 standards, all three tiers can be funded. The proposed funding associated with the Tiers is as follows:

Tier	Target Area Projects	Non Target Area Projects
Tier 1	Up to $15,000 per unit	Up to $15,000 per unit
Tier 2	Up to $10,000 per unit	Up to $10,000 per unit
Tier 3	Up to $5,000 per unit	Included in Tier 2 funding
Maximum Loan	**Up to $30,000**	**Up to $25,000**

Tier 3 improvements are incentivized in the target areas with additional funding that can be structured as a forgivable loan. However, Tier 3 improvements and funding must be made in conjunction with a minimum of $20,000 funding for Tier 1 and/or Tier 2 improvements. Tier 3 funding cannot be provided as a stand-alone loan.

Financial Modifications

The current Investment HOME Program provides gap financing in the overall rehabilitation of an investment property. Agency funds are intended to supplement investor equity contributions and private investment as an incentive to offset the restrictions on the rents on the property for up to twenty years. Under the revised program, the Agency is recommending that the maximum loan amount per unit be increased, and that the term and rate requirements be decreased. In addition, the Agency is recognizing that the properties likely to receive funding through this program often do not have access to private sources of financing, and may not have sufficient cash flow to provide cash equity.

The following describes the proposed financial/underwriting requirements of the revised program, and how they differ from the existing program:

Financial Requirement	Current Program	Proposed Revised Program
Maximum Loan Amount	$15,000 per unit $20,000 per unit in RDAs	$25,000 per unit $30,000 per unit in target areas
Interest Rate	4.0% simple interest	2.0% simple interest Program rate adjusted annually to reflect market conditions
Term	Up to 20 years	Up to 20 years

Equity Requirement	50% (purchase in last 6 months can count towards equity) 10% in Redevelopment Areas	10% cash or 20% non-cash (i.e. property value)
Agency maximum LTV	50% 90% in Redevelopment Areas	90% of after rehabilitation value
Repayment	Agency can defer up to 5 years of payments if necessary	Agency can defer up to 5 years of payments if necessary
Max. total debt ratios	Per Agency Underwriting	Per Agency Underwriting
Credit standards	Per Agency Underwriting	Per Agency Underwriting

Unlike the current program, the revisions described above recognize that the target owner under this program is the investor/owner who already owns the property, and is in need of rehabilitation funding. Staff does not anticipate that this program will be used by investor/owners to purchase property, but could be used in addition to private acquisition funding to improve the newly acquired property.

Regulatory Requirements

One of the strongest impediments to the current program, according to other jurisdictions as well as developers, is the 20-year requirement to regulate tenant income and rents. In a market like Sacramento, where market rents and values are substantially increasing, developers often feel that the benefits of the favorable financing are outweighed by the term of the regulations. Staff proposes that the primary purpose of the Investment HOME Program will be to ensure an on-going supply of decent and safe affordable housing through a rehabilitation and management program.

To better meet both the needs of the investor/owners and the requirements of the Agency funding sources, staff is recommending slight revisions to the regulatory requirements of the Investment HOME Program. Under the current program, the regulatory period is 20 years, with units restricted proportionally to the Agency funding in the project. Under the revised program, staff recommends that the regulatory term be slightly modified to end in 10 years when management and maintenance conditions have been met and the Agency is repaid its loan and interest in full. In addition, staff recommends that the affordability levels be modified to reflect the requirements of the appropriate funding sources. The following summarizes the proposed regulatory requirements under the revised program:

Regulatory Requirement	Non-target Areas	Target Areas
Term of Regulations	Maximum 20 years with ability to pre-pay in year 10 and release restrictions	Maximum 20 years with ability to pre-pay in year 10 and release restrictions
Funding Source	HOME	CDBG (primary) and/or HOME (secondary)
Rent and Income Restrictions	Units restricted proportionally to funding • 1-4 units – all affordable units at 60% AMI • 4+ units – 20% of affordable units at 50% AMI 80% at 60% AMI	Units restricted proportionally to funding • (CDBG) – all affordable units at 80% AMI • (HOME) – affordable units restricted per non-target area standards

* AMI = Area Median Income

Many of the smaller investment properties suffer from physical deterioration and neighborhood nuisance issues, due in part to the lack of consistent and professional management and maintenance. This loan program is designed to provide attractive financing to small property owners with the goal of improving the housing, and providing affordable, properly managed and maintained housing.

The Agency is recommending that owners participating in the Investment HOME Program provide professional property management and maintenance by either hiring a professional management company approved by the Agency or self managing the property under an Agency approved management plan and contract. All changes to the approved management plan or management company during the term of the loan must be approved in advance by the Agency.

All management plans, either for self-management or with an accredited management company, must include at a minimum, provisions on the following items:

- Financial Accounting system, including the responsibility to maintain separate accounts for the property, and to delineate funds associated with the general operations, replacement reserves, and security deposits;
- Method for collecting and disbursing of security deposits;
- Agreement to secure proper insurance per the Agency funding requirements;
- Plans and procedures for advertising vacant units including fair housing requirements;
- Plans and procedures for determining income eligibility;
- Plans and procedures for documentation of income and occupancy per HUD requirements;
- Plans and procedures for annual recertifications for income eligible tenants;
- Rent collections policies and procedures;

- Policies and procedures for eviction of tenants;
- Plans and procedures for ensuring proper maintenance and repair of the property; and
- House Rules detailing on-going rights and responsibilities of tenants, including, but not limited to:
  - Trash removal;
  - Noise;
  - Pet policies;
  - Guest policies; and
  - Parking

Management plans will be reviewed by the Agency prior to loan approval, and amended as necessary to ensure proper compliance with all Agency and funding requirements.

As an incentive to encourage ongoing professional management, proper maintenance and regular loan payments, the Agency is proposing a method for investor/owners to be released from the regulatory provision of their loan. If, ten years from the date of the note, all payments on the loan have been made on time, and the property has been maintained and managed property, the investor/owner has the option to pay off all unpaid principal and interest and have the regulatory restrictions released. Compliance with the management and maintenance requirements will be approved by the Agency based on yearly compliance and property monitoring.

Locational Distinctions

Under the current program, the only locational distinctions made are amongst "target" and "non-target" areas. These areas include all redevelopment areas in the City and the County.

The distinction made in the "target" areas in the current program is only in relation to the amount of funding available. Projects in target areas are eligible to receive up to $20,000 per unit, while projects in non-target areas are eligible to receive up to $15,000 per unit. All other underwriting and regulatory requirements are the same regardless of the location of the project.

It is recommended that the current program be modified to incentivize the utilization of the program in identified "target" areas. The incentives include the availability of additional funding, the availability of a forgivable loan component, and the prioritization of the use of funding in the target areas. It is recommended that in the City, all redevelopment areas as well as the Meadowview area be adopted as "target" areas under the program. A map of the Meadowview area is included as attachment IV.

The following chart identifies the proposed differences between target and non-target areas:

	Non-Target Areas	Target Areas
Maximum Loan Amount	$25,000 per unit • $15,000 – Tier 1 • $10,000 – Tier 2 and 3	$30,000 per unit • $15,000 – Tier 1 • $10,000 – Tier 2 • $5,000 – Tier 3 * Tier 3 funding provided as a forgivable loan
Minimum Loan Amount	Not applicable	$10,000 on Tier 1 and/or 2 improvements to access Tier 3 funding
Use of Agency Funds	Intended as "gap" financing when private funds and equity cannot cover costs	No participation by private lenders required – Agency loan can fund up to 90% of the costs, regardless of capacity to carry debt
Funding Source	HOME	CDBG and HOME • CDBG funds are focused in target areas due to less restricted rent requirements

FINANCIAL CONSIDERATIONS

The proposed changes to the Investment HOME Improvement Loan Program will not have any immediate financial impact. The program is currently funded using HOME and CDBG funds from the Agency's multi-family housing funds. Approval of the proposed revisions will change the structure of the loan program, but will not provide additional funding. Loans will continue to be made over-the-counter with available funding. Should the revisions to the loan program result in a significant increase in activity, the Agency will revisit the funding sources, and consider allocating funding into a program specific fund account.

POLICY CONSIDERATIONS

The proposed revisions are consistent with Agency underwriting policies, and represent modifications to a previously approved Agency loan program. No new policy recommendations are being made.

ENVIRONMENTAL REVIEW

This action to revise the Agency's loan program is exempt from environmental review under CEQA pursuant to the Guidelines Section 15378(b) (4), which exempts government financing mechanisms that do not involve commitment to any specific project. Also, the CEQA Guidelines Section 15301 exempts rehabilitation of existing structures. Under NEPA regulations at 24 CFR Sections 58.35 (a)(3), rehabilitation of existing dwelling units is generally exempt from environmental review.

M/WBE CONSIDERATIONS

The Agency's Minority and Women's Business Enterprise Program will be applied to all applicable projects, where required by the federal funding source.

Respectfully submitted,

for ANNE M. MOORE
Executive Director

Transmittal approved,

ROBERT P. THOMAS
City Manager

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Investment Property Loan Program
Rehabilitation Standards

The Investment Property Loan Program contains three "Tiers" of financing that coincide with levels of rehabilitation. All properties under the program must meet the requirements of Tier One to be eligible for any financing. Tier One improvements are considered improvements to the mechanical envelope of the building, and are necessary to ensure the basic livability of the units. Tier One also includes Housing Quality Standards (HQS) required through the use of federal funding. Tier Two funding allows for more cosmetic improvements and improvement to the comfort and utility of the unit. Tier Three improvements can only be made in conjunction with a Tier One and/or Tier Two loan. Tier Three funds are to be used for exterior cosmetic improvements such as landscaping, irrigation, driveway repairs, and fencing.

All repairs must be performed by a licensed general contractor carrying the Agency minimum insurance requirements. If the property contains four or more units, as part of the Tier One improvements, the property must meet federal Americans with Disabilities Act (ADA) requirements. If the property was originally constructed prior to 1978, as a part of the Tier One improvements, the property must ensure that the property is free of lead based paint hazards, or as a part of the scope, must remedy these hazards. If the total rehabilitation scope of work is equal to 25% of the after rehabilitation appraised value, the property must be brought up to the energy standards set forth by the California Energy Commission Title 24, Park 6 of the California Code of Regulations.

The following describes the rehabilitation standards of the three Tiers of funding. All properties must meet, at a minimum, Tier One standards to be considered for any other funding.

I. Tier One Improvements

A. Lead Based Paint:

All buildings constructed prior to 1978 must comply with Section 401 of the Lead-Based Paint Poisoning Prevention Act.

B. ADA Requirements:

All buildings with four or more units must comply with the Americans with Disabilities Act (ADA).

C. Program Repair Requirements:

1. Substandard Buildings: Buildings which have previously been determined to be substandard under the rules and regulations of the local authority having jurisdiction, shall be brought up to the standards as mandated by that authority.

2. Outstanding Permit Work and Correction Notices: Properties or buildings which have prior incomplete work under permit, outstanding correction notices, nuisance abatement citations or similar related notices for corrective action, shall be brought up to the standards as mandated by that authority.

3. Incomplete Construction Not Under Proper Permit: Properties which have incomplete work for which the proper permits were not issued shall be inspected by the authority having jurisdiction, and shall be brought up to the standards as mandated by that authority.

4. Termite Reports and Related Work: All properties receiving assistance under the loan program shall have a Structural Pest Control Inspection, by a licensed Pest Control Company. All structural deficiencies and infestation listed in Part 1 and Part 2 of the report shall be corrected. Upon completion of the work, one or both of the following documents shall be provided to the Agency prior to final disbursements:

    a. an "Original Structural Pest Control Report" showing the property free and clear of all infestation and infection; or

    b. a "Notice of Work Completed and Not Completed" showing all work completed as listed on a referenced "Original Report" and associated "Limited Reports" if any, for the subject property.

5. Smoke Detectors: All dwelling units shall have hard wired smoke detectors in bedroom or bedroom corridor entries and battery units in each sleeping area.

6. Housing Quality Standards: All dwelling units shall meet Housing Quality Standards (attached) as determined by the US Department of Housing and Urban Development.

D. Critical Code:

All buildings on the property, or portions thereof, which have any of the following deficiencies to the point that they endanger the life, limb, health, safety or welfare of the public or the occupants thereof, or the threat of imminent collapse or failure, shall be corrected under permit and in accordance with the appropriate construction Code, Zoning and Use Requirements, and Historical Preservation Requirements. Deficiencies shall include the following:

1. <u>Structural Deficiencies</u>:

   a. Deteriorated or inadequate foundations.

   b. Defective, deteriorated, insufficiently sized, or missing sub-flooring or floor supports.

   c. Defective, deteriorated or insufficiently sized members of walls, partitions or other vertical support that split, lean, list, or buckle due to the loads imposed.

   d. Defective, deteriorated or insufficiently sized members of ceilings, roofs, ceiling and roof supports, which sag, split, or buckle due to the loads imposed.

   e. Large holes, severe bulging or large areas of failing wall covering materials such as sheet-rock or plaster.

   f. Fireplaces or chimneys which list, bulge or have visible loose bricks.

   g. Defective, deteriorated, loose or missing stairs, landings, handrails, guard rails.

2. <u>Exterior Envelope - Weather Protection / Security</u>:

   a. Defective or ineffective waterproofing of dwelling exterior roof or walls, including doors and windows, which allows the penetration of moisture to the interior of the dwelling.

   b. Defective or lack of reasonable security to dwelling including doors and windows and associated locking devices.

   c. Excessive moisture in habitable rooms due to seepage or drainage.

3. Hazardous Electrical:

   a. Main service, sub-panels, connection or fixture boxes with missing
   or ineffective covers or anchorage.

   b. Incorrect breaker or fuse size for the wire being serviced.

   c. Double lugging or over loading of circuits.

   d. Improper grounding of electrical system.

   e. Overhead service wiring below the minimum height requirements of SMUD and/or the National Electric Code.

   f. Exposed, loose or sparking wiring and connections.

   g. Lack of adequate electrical outlets.

   h. Ground Fault Circuit Interrupter receptacles shall be

   provided to all existing kitchen and bathroom outlets.

4. Hazardous Plumbing and Waste Disposal:

   a. Lack of hot and cold running water to plumbing fixtures.

   b. Polluted domestic water wells.

   c. Improper cross connections with municipal water supply.

   d. Leaking domestic water supply of distribution lines.

   e. All conditions which cause open liquid waste or sewage including: overwhelmed, broken, defective or leaking building drain and sewer lines, or private sewage disposal system.

   f. Lack of connection to required sewage disposal system.

   g. Plumbing vents that terminate or are broken within the building envelope or substructure area.

   h. Lack of the following minimum plumbing facilities, in working order, per dwelling unit:

      1) one water closet

2) one lavatory
3) one bathtub or shower
4) one kitchen sink

i. Fuel gas piping which is broken or leaking or defective or in such condition as to endanger life or property.

5. Hazardous Mechanical Equipment:

a. Improperly vented or unvented gas or wood burning appliances.

b. Improperly installed or defective mechanical equipment that is in such condition as to endanger life or property.

6. Hazardous Site Conditions:

a. Open abandoned septic tanks, cesspools, water-wells and dry wells.

b. Trenches and large open pits or holes near public or private walkways.

7. All other deficiencies that in the opinion of the inspecting Property Rehabilitation Specialist poses a significant threat to life and property.

II. Tier Two Improvements

A. All deficiencies listed in the previous Tier One Improvements section that are not in a condition that they may endanger the life, limb, health, safety or welfare of the public or the occupants thereof or pose the threat of imminent collapse or failure shall be corrected.

B. All properties shall be brought to the minimum standards of the Uniform Housing Code, including Space and Occupancy Standards, Structural Requirements, Mechanical Requirements, and Exits and Fire Protection. All existing conditions which fall into the Substandard Buildings Definitions of this code shall be abated.

C. General Services and Facilities:

Utilities for normal occupancy shall be provided for or upgraded for each property as follows:

1. Operating connection with a municipal water supply when available at curb, sized to adequately meet or exceed the fixture

demand.

2. Sanitary facilities connected with municipal sewage system where available at curb.

3. Facilities for domestic hot water with a reasonable life expectancy.

4. Heating and cooling facilities adequate for healthful and comfortable living conditions.

5. A minimum of a 100 amp electrical service (breaker type) for each unit or UBC load calculations for multi-family units.

6. Water supply and distribution piping that allows for adequate water pressure and volume for normal usage.

7. Sewer lines that are properly graded, structurally sound and free from persistent clogging and intrusion by roots.

D. Access to Property and Dwelling:

1. Each structure shall be provided with dust free vehicular access to and from the property at all times by an abutting public or private street.

2. Safe and durable walks and steps shall be provided for convenient all weather access to the structure.

E. Site Improvements:

1. Site development of each property shall:

   a) Provide for the immediate diversion of water away from buildings and disposal from the lot.

   b) Prevent soil saturation detrimental to the structures.

2. Fences shall be repaired or replaced when found to be dilapidated or hazardous.

3. All exterior appurtenances or accessory structures which are in a deteriorated condition and which are not economically feasible for repair shall be removed or replaced in kind.

4. All overgrown shrubbery and / or vegetation shall be removed or trimmed trees to clear roof by a minimum of 6 feet vertically.

5. All trash, junk, debris, abandoned vehicles or appliances shall be removed from the property.

6. All units must be provided with at least one off street parking space per unit where feasible unless previously approved.

7. All areas of parcel/lot not having structures, parking, or specific use improvements, will be improved with lawns, flower beds, or decorative surface material such as boarded areas with decomposed granite or decorative rocks, etc. Designated lawn and shrub areas will be provided with permanent irrigation systems.

F. Roof Covering:

All roofs shall have a suitable covering free of holes, cracks or excessively worn surfaces, which will prevent the entrance of moisture into the structure interior and provide reasonable durability and longevity. Roofs shall have a controlled method of disposal of water from roof. All existing gutters and downspouts shall be in good repair. Third layer roofs not allowed. Roofs should have a minimum of 5 years life remaining.

G. Exterior Openings:

1. Exterior windows shall be equipped with screens.

2. Existing doors and windows shall be repaired unless deteriorated to the point of being unrepairable, or if the cost of replacement with new doors or windows is less than the cost to repair.

3. Provide viewers, dead bolts, keyed latch assemblies, and 2-inch screws in strike plate on front doors.

4. On multiple dwelling units sharing a common corridor, when walls are required to be of one-hour fire-resistive construction by Section 1004.J.4 (g), every door opening shall be protected by a tight-fitting smoke and draft-control assembly having a fire-protection rating of not less than 20 minutes when tested in accordance with U.B.C. Standard No. 43-2. Said doors shall not have louvers. The door and frame shall bear an approved label or other identification showing the rating thereof, the name of the manufacturer and the identification of the service conducting the inspection of materials

and workmanship at the factory during fabrication and assembly. Doors shall be maintained self-closing or shall be automatic-closing by actuation of a smoke detector in accordance with Section 1005.3.3.5. Smoke- and draft-control door assemblies shall be provided with a gasket so installed as to provide a seal where the door meets the stop on both sides and across the top.

H. General Interior:

1. Properly hung doors with workable hardware shall be provided to each bedroom, closet, bathroom or toilet compartment.

2. Finish floors shall be provided that are appropriate for the use of the space and in such a condition so as not to pose a tripping hazard.

3. All stairs, landings and corridors shall be arranged to permit adequate headroom and the passage of furniture and equipment.

4. All interior finish surfaces that are disturbed as a result of other work called for in the Required or Housing Quality Improvements sections shall be painted or repainted to the degree necessary to provide a quality finished project. Existing wall and ceiling surfaces shall provide for durability and relative economy of maintenance. Areas subject to moisture wall surfaces shall be painted with a non-absorbent type paint.

I. Kitchen Facilities:

1. Each living unit shall have a specific kitchen space with chip free sink, hot and cold running water and a non-absorbent counter for the preparation of food.

2. All kitchen floor covering shall be of a water-impervious material, vinyl sheet goods or equal.

3. Counter top work space shall be a minimum of 6 lineal feet for a one or two bedroom living unit, and 10 lineal feet for a three or four bedroom living unit.

4. Storage shelving shall be a minimum of 30 square feet. Drawer area shall be a minimum of 5 square feet. (Storage and drawer facilities in pantries, sink or range complexes may be counted as part of the required storage space.)

5. Existing cabinets with broken or missing components or permeable

surfaces due to a defective protective finish, shall be repaired and / or refinished unless deteriorated to the point of being unrepairable, or if cost of replacement with new cabinets is less than the cost to repair.

6. Kitchens should be provided with a mechanical exhaust or charcoal filter system to expel smoke and or fumes associated with cooking.

7. Defective built-in or free-standing ranges and ovens shall be repaired or replaced.

J. Bath Facilities:

1. All bath and toilet room floor coverings shall be of a water impervious material, vinyl sheet goods or equal.

2. A locking device shall be provided to each bathroom door.

3. All plumbing fixtures and appurtenances shall be in good working condition and properly connected to hot and / or cold running water as applicable.

4. Each bathroom shall contain a medicine cabinet, two towel bars and a toilet tissue holder.

5. Bathrooms shall be provided with a mechanical exhaust system to expel moisture laden air to the exterior when no means of natural ventilation exist.

6. Bathtub or shower enclosures shall have suitable wall coverings free of voids or cracks to prevent the penetration of moisture into the wall cavity and provide ease of maintenance, reasonable durability and longevity. Plastic surfaced hardboard and fiberglass less than 1/8 inch thick is not acceptable enclosure material.

K. Bedrooms:

Clothes closet space shall be provided within each room being used as a bedroom. Closets shall be provided with a shelf and clothes pole.

L. Laundry Facilities:

Provisions for the installation of laundry facilities (utility hook-ups only) shall be provided on the premises, one connection for each 5 units in a multiple unit complex.

M. <u>Weatherization / Energy Conservation</u>:

1. The attics of conditioned areas shall be insulated to a minimum of R-19 with an acceptable insulation material.

2. Weather-stripping shall be applied as needed around all exterior doors and windows of conditioned areas. Foam and coil types should not be utilizes.

3. Any exterior walls of conditioned areas that are opened down to the studs during the course of rehabilitation shall be insulated to a minimum of R-19 with an acceptable insulation material.

4. All joints in the building envelope shall be caulked or sealed and loose or brittle caulking shall be replaced.

5. Supply and return heating and air-conditioning ducts shall be insulated where they run through unconditioned spaces.

6. Water heaters shall have an insulation rating or insulation blanket with a rating of no less than a R-6.

7. When replacing windows, new windows may be dual paned at owners option.

8. Attics shall be provided with natural ventilation to prevent excessive heat in attics.

N. All other corrections that in the opinion of the inspecting Property Rehabilitation Specialist will prevent the precipitous deterioration of the property.

Tier Three Improvements

Tier Three Improvements are meant to allow exterior beautification, including, but not limited to:

A. Landscaping and irrigation – installation or repair in both front and rear yards
B. Fencing – installation or repair in both front and rear yards
C. Driveway and/or sidewalk improvements
D. Building/repair of common dumpster surrounds
E. Exterior lighting improvements or installation
F. Exterior painting
G. Addition/repair of exterior awnings, trellises or porches

Any improvements requested under Tier Three must be approved by the Sacramento Housing and Redevelopment Agency, and must be done in conjunction with Tier One and Tier Two improvements as described above.

Investment Property Improvement Loan Program
Program Guidelines – City and County Projects

Investment Program:	The Investment Property Improvement Loan is designed to provide low-interest rate financing for acquisition and rehabilitation or rehabilitation only of investment property between one and 10 units. Properties containing more than 10 units may be considered under this program in special circumstances. Agency funds are intended as "gap" financing. Applicants are expected to secure the maximum amount of private financing available. Agency funds are loaned to fill the difference between such financing and total project development costs up to the maximum amount per unit.
Maximum Amount:	up to $15,000 per unit for "Tier One" improvements up to $10,000 per unit for "Tier Two" improvements up to $25,000 per unit for "Tier One, Tier Two and Tier Three" improvements combined Projects **must** meet "Tier One" standards to receive any "Tier Two" or "Tier Three" funding. **$25,000 MAXIMUM LOAN AMOUNT**
Interest Rate:	(current) 2.00% fixed rate, simple Interest rate is adjusted annually.
Term:	20 years. After 10 years of compliance, borrower may request to re-pay outstanding principal balance and accrued interest and remove the corresponding restrictions from the property. Re-payment is contingent on: ▪ Problem free management ▪ Physical condition of the property ▪ Payment history on Agency loan and is subject to Agency approval.
Borrower Equity:	10% cash or 20% non-cash (i.e. value of property) contribution
Maximum Loan to Value:	90% of after rehabilitation value
Repayment:	Agency can defer payments during the construction period up to five years if needed to assist in project feasibility. After 10 years of payments, borrower may request to re-pay the loan and remove affordability restrictions.
Maximum Total Debt Ratios:	Per Agency Underwriting Guidelines
Credit Standards:	Per Agency Underwriting Guidelines

Use of Funds:	"Tier One" – Funds may only be used to finance real property improvements that substantially protect the basic livability of the property. Examples of work done under Tier One include plumbing repairs, electrical repairs, heating, and roof repairs. "Tier Two" – Tier Two funding and improvements may not be approved unless the property meets "Tier One" property standards or is performing "Tier One" improvements as part of the overall loan. Funds for Tier Two improvements may only be used to finance real property improvements that substantially improve the basic livability or utility of the project. Examples of work done under Tier Two include installation of new windows, new floor coverings, installation of new appliances, and upgrades to an existing cooling system. "Tier Three" – Tier Three improvements include additional exterior beautification, such as landscaping, driveway repair, and fencing. Tier Three improvements can be made in conjunction with Tier One and Two improvements as a part of Tier Two funding. Detailed descriptions of Tier One, Two and Three property standards can be found in the Agency Investment Property Loan Program Rehabilitation Standards.
Lead-Based Paint:	If the building was built before 1978, a lead-based paint risk assessment will be required. The applicant will be required to cover the cost of the risk assessment as part of the application process. The Agency may allow a grant of up to $5,000 per unit not to exceed $40,000 per project to address lead-based paint hazards, including testing. The applicant will be reimbursed for these expenses only if a loan is provided.
Eligible Properties:	Rental housing properties between one and 10 units in the City and unincorporated County of Sacramento. Property size restrictions may be waived in some circumstances.
Rental & Income Restrictions:	Units will be restricted proportionally to the amount of Agency funding invested in the property. At a minimum, 20% of the units will be income and rent restricted. For properties with four or fewer units, all affordable units will be restricted at 60% of median income, and for properties five units or larger, 20% of the affordable units must be restricted at 50% of median income. Please see income and affordability chart for current rent and income limits.
Regulatory Term:	20 years with the option to remove the restrictions after ten years.

Investment Property Improvement Loan Program
Program Guidelines – Target Area Projects

Investment Program:	The Investment Property Improvement Loan is designed to provide low-interest rate financing for the rehabilitation of investment rental properties between one and 10 units. Properties containing more than 10 units may be considered under this program in special circumstances.
Maximum Amount:	up to $15,000 per unit for "Tier One" improvements up to $10,000 per unit for "Tier Two" improvements up to $25,000 per unit for "Tier One and Tier Two" improvements combined up to $5,000 per unit for "Tier Three" improvements *only* in conjunction with a minimum $10,000 Tier One and/or Two loan. Projects **must** meet "Tier One" standards to receive any "Tier Two" funding. Tier Three funds are provided as a forgivable loan, with no payments due while property is in compliance. **$30,000 MAXIMUM LOAN AMOUNT**
Interest Rate:	(current) 2.00% fixed rate, simple interest. Interest rate is adjusted annually.
Term:	20 years. After 10 years of compliance, borrower may request to re-pay outstanding principal balance and accrued interest (less any Tier Three funds) and remove the corresponding restrictions from the property. Re-payment is contingent on: ▪ Problem free management ▪ Physical condition of the property ▪ Payment history on Agency loan and is subject to Agency approval.
Borrower Equity:	10% cash or 20% non-cash (i.e. value of property) contribution
Maximum Loan to Value:	90% of after rehabilitation value
Repayment:	Agency can defer payments during the construction period up to five years if needed to assist in project feasibility. After the tenth year of the term, borrower may request to re-pay the loan and remove affordability restrictions as described above.
Maximum Total Debt Ratios:	Per Agency Underwriting Guidelines
Credit Standards:	Per Agency Underwriting Guidelines
Use of Funds:	"Tier One" – Funds may only be used to finance real property improvements that substantially protect the basic livability of the property. Examples of work done under Tier One include plumbing repairs, electrical repairs, heating, and roof repairs.

"Tier Two" – Tier Two funding and improvements may not be approved unless the property meets "Tier One" property standards or is performing "Tier One" improvements as part of the loan. Funds for Tier Two improvements may only be used to finance real property improvements that substantially improve the basic livability or utility of the project. Examples of work done under Tier Two include installation of new windows, new floor coverings, new appliances, and upgrades to an existing cooling system.

"Tier Three" – Tier Three funding is only in conjunction with a Tier One and/or Two loan. Tier Three improvements include additional exterior beautification, such as landscaping, driveway repair, and fencing.

Detailed descriptions of Tier One, Two and Three property standards can be found in the Agency Investment Property Loan Program Rehabilitation Standards.

Lead-Based Paint:

If the property was built before 1978, a lead-based paint risk assessment will be required. The applicant will be required to cover the cost of the risk assessment as part of the application process.

The Agency will allow a grant of up to $5,000 per unit not to exceed $40,000 per project to address lead-based paint hazards, including testing. The applicant will be reimbursed for these expenses only if a loan is provided. The lead based paint grant will be structured as a forgivable portion of the Tier One and/or Tier Two loan proceeds.

Eligible Properties:

Rental housing properties between one and 10 units in identified target areas of the City and unincorporated County of Sacramento. Property size restrictions may be waived in some circumstances.

The target area loan program is intended to be used as a part of an overall neighborhood strategy in certain pre-identified target areas. Please see maps showing eligible target areas.

Rent & Income Restrictions:

Units will be restricted proportionately to the amount of Agency funding invested in the property. At a minimum, 20% of the units will be income and rent restricted. For properties with four or fewer units, all affordable units will be restricted between 60% and 80% of median income (depending on funding source). For properties five units or larger, 20% of the affordable units must be restricted at 50% of median income.

Please see income and affordability chart for current rent and income restrictions.

Regulatory Term:

20 years with the option to remove the restrictions after ten years.

Meadowview Area Boundary Map