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ONE COMMUNITY ONE VISION

Sacramento Housing & Redevelopment Agency

July 5, 2000

APPROVED
JUL 25 2000
SACRAMENTO REDEVELOPMENT AGENCY
CITY OF SACRAMENTO

Redevelopment Agency of the City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: AMENDMENT OF OWNER PARTICIPATION AND REGULATORY AGREEMENTS FOR CAPITOL PARK HOMES (12th, 14th, P and Q Streets)

LOCATION & COUNCIL DISTRICT 12th, 14th, P and Q Streets – District 3

RECOMMENDATION

Staff recommends adoption of the attached resolution which authorizes the Executive Director to execute the First Amendment to Owner Participation Agreement (First Amendment to OPA) and First Amendment to Regulatory Agreement between Shasta/Downtown Single Family Development, LLC and the Redevelopment Agency of the City of Sacramento. The amendments modify affordability terms of these agreements.

CONTACT PERSONS

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

FOR COUNCIL MEETING OF July 25, 2000

SUMMARY

On September 15, 1998, the City Council, acting as the Redevelopment Agency of the City of Sacramento, approved a $2 million forgivable loan to assist in the development of the 64-unit Capitol Park Homes Project. At this time all units were restricted to be sold at affordable prices at 110 percent of area median income and staff and developer did not anticipate that the market prices would reach current levels and therefore the any potential excess revenue of the project would not be restricted. To recapture our subsidy based on the new market sales prices, staff is proposing to modify the terms of affordability so that six units would be affordable and sold to low income households and twelve units would be affordable and sold to moderate income households.

COMMISSION ACTION

It is anticipated that at its meeting of July19, 2000, the Sacramento Housing and Redevelopment Commission will adopt a motion recommending approval of the attached resolutions. In the event they fail to do so, you will be advised prior to your July 25, 2000 meeting.

BACKGROUND

On September 15, 1998, the City Council, acting as the Redevelopment Agency of the City of Sacramento, approved a $2 million forgivable loan to assist in the development of the 64-unit Capitol Park Homes Project. At this time all units were restricted to be sold at affordable prices at 110% of area median income (buyer household income was not restricted).

Sales prices at the time of approval were anticipated to range from $137,500 to $173,500. They were later revised in 1999 to $170,000 to $194,400. These sales price increases were offset by approximately $2,000,000 in additional costs due to construction materials and labor prices. Due to the strength of the downtown housing market and a change in flood requirements, which allows the first floor living area to be counted as living space, projected unrestricted sales prices now have increased to between $170,000 and $279,500 or approximately $3 million in additional revenue if all homes were to be sold at market price. This addition revenue is offset by about $714,000 in increased costs to provide the additional living space improvements. A schedule of currently proposed sales prices including restricted prices is included as Attachment I.

Staff is proposing to modify the terms of affordability so that six units (9% of the total units) would be affordable and sold to low (70%) income households and twelve (19% of the total units) units would be affordable and sold to moderate (110%) income households. Staff proposes that the units will be sold at market prices and that the Agency will use a portion of the $2 million development loan as secondary financing to individual qualified homebuyers. The loan will be due upon sale or transfer and a percentage of equity will be recaptured if the home is not sold to another qualified low or moderate-income purchaser. The repayment methods include a provision for equity recapture and are further described in Attachment II.

Restricting a smaller number of homes at a "deeper" affordability level to qualified homebuyers results in significantly reduced sales prices for qualified homebuyers. These actions will create a mixed income community and allow for the project to repay a greater percentage of the Agency's loan with unrestricted sales price revenue.

The original terms of the OPA provide that the Agency be repaid a percentage of excess revenue once the developer receives his predetermined profit. At the time of approval the Agency anticipated a small repayment amount. Due to the strong housing market, the proposed unrestricted sales prices may result in the Agency being repaid $611,000 versus the original $62,190 that was originally projected with all units affordable at moderate income. In addition the Agency's loan plus a percentage of equity will be recaptured in the event that the home is not sold to a qualified buyer.

FINANCIAL CONSIDERATIONS

This amendment, based on current projected sales prices, will result in increased repayment of the Agency loan for the project.

POLICY CONSIDERATIONS

The Agency's $2 million financial assistance to this project is approximately 13 percent of the total development costs. Staff is proposing to restrict 28 percent of the total units in the project. The Agency calculated this number of assisted units based on HUD guidelines, which establish per unit maximum subsidies.

ENVIRONMENTAL REVIEW

Environmental review was completed at the time of OPA approval. No additional actions are necessary.

M/WBE CONSIDERATIONS

The developer of this project will be made aware of the Agency's M/WBE policy and will be advised to include M/WBE firms in solicitations for the construction of the improvements.

Respectfully submitted,

ANNE M. MOORE
Executive Director

Transmittal approved,

ROBERT P. THOMAS
City Manager

CAPITOL PARK HOMES
PROFIT COMPARISON - Approved Pro Forma vs. Proposed Pro Forma
6/23/2000

APPROVED PRO FORMA

ASSUMPTIONS

Unit Mix:	Plan Size	Units
Affordable @ 110%	1,306	18
Affordable @ 110%	1,430	15
Affordable @ 110%	1,594	16
Affordable @ 110%	1,747	15
	TOTAL SF	**96,667**

Revenue:	Plan Size	Sales Price
	1,306	$170,000
	1,430	$174,800
	1,594	$194,900
	1,747	$194,900
	Total Sales $	**$11,723,900**

Costs:		
Fixed		$6,615,000
Fees & Permits	$7.16/sf	$692,000
Hard Costs	$58.24/sf	$5,630,000
Selling & Mktg	3% of Sales $	$349,000
	Total Costs	**$13,286,000**

PROFIT ANALYSIS

Sources of Funds:		
	Sales Revenue	$11,723,900
	Model Home Recap	84,300
	SHRA Loan	2,000,000
	CADA Loan	800,000
	TOTAL FUNDS	**$14,608,200**
Uses of Funds:		
	Total Costs	($13,286,000)
	TOTAL PROFIT	**$1,322,200**

Distribution:

Developer	CADA	SHRA
$800,000	$0	$0
$192,000	$192,000	$0
$27,640	$48,370	$62,190
$1,019,640	$240,370	$62,190

PROPOSED PRO FORMA

ASSUMPTIONS

Unit Mix:	Plan Size	Units
Affordable @ 70%	1,306	12
Market	1,306	6
Affordable @ 110%	1,785	6
Market	1,785	9
Market	2,147	16
Market	2,431	15
	TOTAL SF	**121,100**

Revenue:	Plan Size	Sales Price
Affordable @ 70%	1,306	$94,500
Market	1,306	$170,000
Affordable @ 110%	1,785	$198,800
Market	1,785	$223,000
Market	2,147	$257,000
Market	2,431	$279,500
	Total Sales $	**$13,658,300**

Costs:		
Fixed		$6,615,000
Fees & Permits	$7.16/sf	$875,000
Hard Costs	add'l $7K/unit	$6,100,000
Selling & Mktg	3% of Sales $	$410,000
	Total Costs	**$14,000,000**

PROFIT ANALYSIS

Sources of Funds:		
	Sales Revenue	$13,658,300
	Model Home Recap	84,300
	SHRA Loan	2,000,000
	CADA Loan	800,000
	TOTAL FUNDS	**$16,542,600**
Uses of Funds:		
	Total Costs	($14,000,000)
	TOTAL PROFIT	**$2,542,600**

Distribution:

Developer	CADA	SHRA
$800,000	$0	$0
$192,000	$192,000	$0
$271,720	$475,510	$611,370
$1,263,720	$667,510	$611,370

OWNERSHIP HOUSING ASSISTANCE

In order to increase the stock of affordable housing in the community, the Agency may provide two types of financing to very low-, low- or moderate-income housing projects. The first type of financing, "Affordability Assistance," will be provided to "buy down" the purchase price to an affordable purchase price. Affordability Assistance is a direct financial assistance to the purchaser. The second type of financing, "Development Assistance," may be used if a project could not be built under current market conditions, because the cost to develop the project exceeds its market value upon completion ("feasibility gap"). Development Assistance funding is provided to reduce the cost of the project as a whole. A project may be subsidized with both types of assistance In both instances, affordability covenants will be recorded against certain units ("restricted units").

Development Assistance:
The Agency will determine the necessity for and amount of Development Assistance needed to cover the feasibility gap. Since the Development Assistance only makes the project feasible and does not reduce the sales price to an affordable price, purchasers of the restricted units receive no direct financial benefit from the Development Assistance. Consequently, the Agency will require a lesser percentage of recapture of Development Assistance than for Affordability Assistance .

Agency will structure financing to reduce the project's feasibilty gap by:

- Appropriate selection of the number and type of units restricted
- Inclusion of revenue sharing incentives to increase sales prices

Affordability Assistance:
To reduce the sales price on a restricted unit from market price to an affordable price, the Agency will "buy-down" the purchase price to the affordable price.

The Agency will determine the number of restricted units by application of the following three tests:

- Application of funding source requirements
- Consideration of the percentage of Agency assistance provided to the Project in relation to total cost to develop the Project will be considered.
- Application of HUD 221(d3) subsidies-per-unit limits, as a guideline.

Resale Restrictions and Recapture
Upon resale of a restricted unit, the owner-seller will have the following two options:

1) Sell the restricted unit at affordable sales price to a qualified purchaser.
2) Repay the Agency subsidy ("recapture")

If the owner of a restricted unit ("Seller") elects to sell at an affordable price, the affordability covenants continue in effect, and the subsequent buyer will be subject to same restrictions on resale.

If the Seller elects to sell at more than the affordable price, Seller will pay a recapture amount based on the following formula.

Development Assistance Recapture
If only Development Assistance is used to subsidize a restricted unit, Seller will pay a recapture amount that is restricted unit's share of the Development assistance or 20% of the current sales price reduced by the following "repayments on sale," whichever is less.

Repayments on sale are the following payments that are to be made before calculation of the recapture amount:

- Repayment of the Seller's downpayment paid towards the purchase of the restricted unit (as verified by closing statement).
- Payment of reasonable and customary selling costs.The repayment of loans. However loan repayments allowed as repayments on sale are limited to the affordable purchase price that Seller paid for the restricted unit.
- Repayment of the appraised value of improvements made to the property by the Seller

Affordability Assistance Recapture
If the Seller received Affordability Assistance for the restricted unit the recapture amount to be repaid by Seller will be the "recapture percentage" of the current sales price reduced by the repayments on sale.

- The recapture percentage is the same percentage that the Agency's Affordability Assistance for the restricted unit bears to the "market purchase price". The market purchase is the price for a similar unit without Agency's "buy down" to an affordable price. For example, if Agency's Affordability Assistance reduced the market sales price by 25% to reach the affordable purchase price, then 25% of the current sales is subject to recapture.
- If, however, the calculated recapture amount is less than initial Affordability Assistance to the restricted unit, the recapture amount will be sales proceeds reduced by the repayments on sale.

APPROVED

JUL 25 2000

SACRAMENTO REDEVELOPMENT AGENCY
CITY OF SACRAMENTO

RESOLUTION NO. 2000-052

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

CAPITOL PARK HOMES: FIRST AMENDMENT TO OWNER PARTICIPATION AGREEMENT AND REGULATORY AGREEMENT WITH SHASTA/DOWNTOWN SACRAMENTO SINGLE FAMILY DEVELOPMENT, LLC

WHEREAS, the Agency approved and entered into an Owner Participation Agreement on October 23, 1998 between the Agency and Shasta/Downtown Sacramento Single Family Development, LLC to utilize $2 million of Merged Downtown Sacramento Redevelopment Project Area funds for the acquisition, predevelopment, and development of a 64-unit single family home development on the block bounded by 12th, 14th, P, and Q Streets ("Project");

NOW, THEREFORE, BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO;

Section 1: The First Amendment to Owner Participation Agreement between the Agency and Shasta/Downtown Sacramento Single Family Development, LLC, a copy of which is on file with the Agency Clerk as referenced in the staff report that accompanies this resolution, is approved and the Executive Director is authorized to execute said document.

Section 2: The First Amendment to Regulatory Agreement for the Project between the Agency and Shasta/Downtown Sacramento Single Family Development, LLC, a copy of which is on file with the Agency Clerk as referenced in the staff report that accompanies this resolution, is approved and the Executive Director is authorized to execute said document.

Section 3: The Executive Director is authorized to take all actions necessary to implement said amendments.

CHAIR

ATTEST:

SECRETARY

Attachment II

OWNERSHIP HOUSING ASSISTANCE

In order to increase the stock of affordable housing in the community, the Agency may provide two types of financing to very low-, low- or moderate-income housing projects. The first type of financing will be provided to tax increment restricted units in a housing project to purchase covenants restricting the affordability of individual housing units ("Affordability Assistance"). Without regard to the Affordability Assistance, if a project could not be built under current market conditions, because the cost to develop the project exceeds its market value upon completion ("feasibility gap"), the Agency will provide funding assistance to reduce the cost of the project as a whole ("Development Assistance").

Development Assistance:
The necessity for and amount of Development Assistance need[...] be determined by the feasibility gap which occurs when the deve[...]d after-completion market value of the project. The Agency [...]r recovery of the subsidy provided by the Agency to close [...] Development Assistance only makes the project feasi[...] reduce the sales price below market value, purcha[...] direct financial benefit from the Development As[...]

The Agency will structure financing to close [...] possible by:

- Appropriate selection of the numbe[...]
- Including revenue sharing incen[...]

Affordability Assistance:
In order to reduce unit sales price to be[...] requirements on "restricted units" the Age[...]om the market price to the affordable price. Cov[...]e recorded on the restricted units.

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Capitol Partners

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The number of units to be restricted will be determine[...] the following three tests:

- Application of the funding source requirements.
- Consideration of the percentage of Agency assistance pro[...]ed to the Project in relation to total cost to develop the Project.
- Use of the HUD 221(d3) limits on subsidies per unit as a guideline.

Upon resale of a restricted unit, the owner-seller will have the following two options:

1) Repay the Agency subsidy ("recapture"). If Affordable Assistance was provided; or
2) Sell the restricted unit at affordable sales price to a qualified purchaser ("resale").

If Seller elects the first option, the recapture amount to be repaid by Seller will be:
The "recapture percentage" of the "appreciation".

The recapture percentage is the same percentage as the Agency's Affordability Assistance for the restricted unit bears to the market purchase price (the price for the unit before reduction of the price by Agency's Affordability Assistance). For example, if Agency's Affordability Assistance reduced the market sales price by 25% to reach the affordable purchase price, and then 25% of appreciation is subject to recapture.

Appreciation is defined as the difference between current affordable sales price and actual sales price less the following items subject to approval by the Agency:

- Reasonable and customary selling costs
- Initial owner downpayment verified by settlement statement
- Loan principal reduction (The owner will not be permitted to have loans on the property which exceed 100% of the price paid by purchaser for the unit)
- Appraised value of additional improvements made to the property by the owner-seller

In the event that the recapture amount is less than initial Agency affordability assistance, the recapture amount will be "net sales proceeds."

The "net sales proceeds" is defined as all proceeds from sale less reasonable selling costs and loan principal reduction.

If the owner-seller elects, Option 2, the affordability covenants continue and the subsequent buyer will be subject to same restrictions on resale.