



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



December 4, 1990

Budget & Finance Committee
Transportation/Community
Development Committee
Sacramento, CA

Honorable Members in Session:

SUBJECT: Funding Authority for Sacramento Mutual Housing
Association Project

SUMMARY

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

RECOMMENDATION

The staff recommends approval of the attached resolutions approving the funding.

Respectfully submitted,

ROBERT E. SMITH
Executive Director

TRANSMITTAL TO COMMITTEE:

JACK R. CRIST
Deputy City Manager

Attachment



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



December 11, 1990

Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Funding Authority for Sacramento Mutual Housing
Association Project

SUMMARY

The Redevelopment Agency of the City of Sacramento ("the Agency") actively supported and cooperated in the organization of Sacramento Mutual Housing Association ("the Mutual") in 1988 and contributed financially to the Mutual's first project (Glen Ellen Estates). This report recommends committing up to \$200,000 in tax increment funds for acquisition/construction funding on the Mutual's second project. Of the \$200,000, up to \$15,000 would be disburseable for use as predevelopment monies upon submittal by the Mutual of a predevelopment loan application on a specific site, which must meet with the approval of the Executive Director in consultation with an ad hoc committee of the Sacramento Housing and Redevelopment Commission ("the Commission"). Final loan approval of the remainder of the \$200,000 would be contingent upon submittal to and approval by the Agency of a more complete project proposal. This advance commitment of funding is desirable to provide the Mutual with assurance of a set financial base as they explore and evaluate alternative projects, and will enable them to move expeditiously on targets of opportunity.

BACKGROUND

A brief history of the Agency's involvement with the Mutual is as follows:

- * On March 15, 1988, the Agency entered into a contract with Neighborhood Reinvestment Corporation to investigate the feasibility of establishing a mutual housing association in Sacramento. The contract also committed up to \$300,000 towards the first project of such an organization.

(1)

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- * On November 9, 1988, the City Council formally recognized the Mutual, the development of which was a cooperative effort between the City, County, Neighborhood Reinvestment Corporation and Rural California Housing Corporation.
- * On March 14, 1989, the Agency approved the sale of Glen Ellen Estates, a 36-unit apartment complex the Agency had acquired from HUD through a foreclosure sale, to the Mutual. The financing of the sale and rehabilitation of Glen Ellen included a short-term, 0% construction loan from the Agency to the Mutual in the amount of \$506,031 and a permanent grant of \$137,000.
- * Later, the Mutual repaid the Agency \$414,283 of the short-term loan, while the remaining \$91,748 of the loan rolled over into a conditional grant. Total Agency funds in the project are \$228,748, well under the \$300,000 originally committed by the Agency to the project.

The Mutual has now approached the Agency regarding the possibility of financial assistance for their second project. Staff has given extensive consideration to various forms of assistance, including donation of Agency-owned and land-banked sites, acquisition and donation of a parcel, low-interest loans, etc. Staff's recommendation is that the Agency commit up to \$200,000 in Downtown Redevelopment Area tax increment funds from the recently completed 1990 tax allocation bond towards the Mutual's acquisition of a site (which may be for either acquisition or new construction of rental housing).

An upfront commitment of funds appears to be the most beneficial form of assistance at present. It will provide the Mutual with assurance of a set financial base as they explore and evaluate alternative projects and will enable them to move expeditiously on targets of opportunity.

The Mutual is currently investigating both new construction and acquisition/rehabilitation prospects for their next site. They would prefer an acquisition/rehabilitation project, as this would enable them to complete development relatively more quickly and at lower cost. They are particularly interested in projects which have a neighborhood revitalization component.

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If approved, the \$200,000 commitment to the Mutual would be the first of a revolving loan fund program which specifically targets assistance to non-profit-owned projects. This non-profit developer assistance program is being formulated by staff and will be reported on separately at a later date.

The structure of the recommended funding commitment to the Mutual is described below:

- The Agency would commit to loan the Mutual a sum not to exceed \$200,000.
- Of the \$200,000, up to \$15,000 would be disbursable as a predevelopment loan upon submittal by the Mutual and approval by the Executive Director, in consultation with an ad hoc committee of the Commission, of a predevelopment loan application on a specific site. The Agency would delegate to the Executive Director, in consultation with the ad hoc committee, the authority to give preliminary approval of the site in conjunction with approval of the loan. Necessary components of the funding application to be submitted by the Mutual, as well as criteria for approval, are listed in Attachment A. In the interest of timely use of this money, application for the predevelopment funds must be made by the Mutual within six months of the date of this report.
- The \$15,000 predevelopment loan would be in the form of a 0% interest rate, unsecured note and could be used for the following: site option money, appraisals, architect/engineering reports, toxics testing, construction cost estimating, environmental reviews and other necessary costs (other than overhead and administrative costs) associated with the preparation of applications for financing.
- To the extent that the \$15,000 predevelopment loan would go towards site option money, the Mutual will need to secure a 30-60 day "free look" with the current owner of the property, during which time the option money would not be at risk. During the "free look" period, the Mutual would have the opportunity to investigate the property, do site work-ups and uncover any potential problems, before a commitment is firmly made to the site.

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- The remainder of the \$200,000 could be used for acquisition and/or construction funding. To obtain this funding, the Mutual must submit a complete project proposal for approval by the Agency. Necessary components of the project proposal, as well as criteria for approval, are listed in Attachment B. In the interest of timely use of these funds, a proposal must be submitted by the Mutual for these funds within one year from the date of this report.
- The acquisition/construction loan could be used to finance either a new construction or rehabilitation project. It is our experience that construction and rehabilitation financing is the most difficult to obtain, particularly in light of new restrictions on the lending community.
- If the acquisition/construction loan is approved, the \$15,000 predevelopment loan would roll-over into and be added to the total amount of the acquisition/construction loan. Otherwise, the \$15,000 predevelopment loan will become due and payable five years from the date disbursed.
- The acquisition/construction loan would be in the form of a 0% interest rate note, secured by the property, payable upon receipt by the Mutual of permanent financing or in five years, whichever comes first.
- Amounts repaid by the Mutual on the predevelopment and/or acquisition/construction loan shall be deposited into a non-profit predevelopment loan fund. (The Mutual will be eligible to apply for these funds for a third project if they so choose.)
- Any request for a roll-over of the acquisition/construction loan into permanent financing would require additional application information, as well as approval by the Agency governing board.

Staff recommends that the Executive Director, in consultation with an ad hoc committee of the Commission, be authorized to approve the predevelopment loan, provided that the project meets the respective criteria. In conjunction with approval of the predevelopment loan,

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the Executive Director, again in consultation with an ad hoc committee of the Commission, also would be authorized to approve the Mutual's proposed site for use of the Agency's loan funds. This will greatly assist the Mutual in moving expeditiously to meet application deadlines for other funding sources.

In addition to the loan agreements, the Agency and the Mutual would also enter into an Owner Participation Agreement (OPA), similar to the one on the Glen Ellen property. Provisions of the OPA are subject to negotiation but would include the following:

- The project must have at least 30-year affordability.
- No sale or excess refinancing would be allowed without Agency approval.
- The project must have adequate reserves.
- Strong, professional management will be required. The initial management company and any changes thereof will be subject to Agency approval.
- The project must be adequately maintained.

FINANCIAL DATA

Staff proposes that up to \$200,000 be committed to the next project from the portion of the 1990 tax allocation bond (TAB) monies attributable to tax flow from the Downtown Redevelopment area. The final amount of the loan will be dependent on the other sources of financing the Mutual obtains on the project (but will not exceed \$200,000). Staff is bringing forward a separate report identifying proposed uses for Housing Setaside funds in the 1990 TAB. These uses will include: landbanking, developer assistance, ownership housing assistance and housing preservation assistance.

It is anticipated that the funds will be repaid all or in part with receipt of permanent, take-out financing by the Mutual from other sources. Staff is recommending that paybacks on either the predevelopment or acquisition/construction loan should be deposited

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into a non-profit predevelopment loan fund. The Mutual will be eligible to apply for these funds for a third project if they so choose.

MBE/WBE

The Agency's MBE/WBE policy will apply to any contracts entered into by the Mutual in constructing the project.

ENVIRONMENTAL REVIEW

No specific project has been targeted by the Mutual at this time. Prior to approval by the Executive Director of any predevelopment or acquisition/construction funds on a site, all appropriate environmental reviews will be conducted.

POLICY IMPLICATION

The following resolution recommends the pre-commitment of funding for both a predevelopment and an acquisition\construction loan to the Mutual, subject to the project meeting criteria outlined in Attachments A and B. The Agency has assisted numerous private and non-profit developers in the past with construction and permanent financing for affordable housing projects. These loans have been the result of extensive negotiations with, and much preparation by, developers, all of which is costly and time-consuming. For-profit developers have the financial resources to pay for such upfront costs; non-profit developers do not. Non-profits have traditionally needed predevelopment monies in order to obtain site control and to put together the many-layered financing packages typical of affordable housing projects. The predevelopment loan recommended in this report would meet this need. Precedents for commitments of predevelopment funds include a July 10, 1990 commitment made to Self-Help Housing, Inc. of \$20,000 for predevelopment money, as well as grants made to Rural California Housing Association for predevelopment costs on several self-help projects. Provision of predevelopment funds for nonprofits is consistent with program goals in the Housing Assistance Plan, Program and Financing Strategy, the Three-Year Housing Action Strategy and 1991-1995 Five-Year Capital Improvement Plan goals.

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Predevelopment and acquisition/construction loans on affordable housing projects must be funded on a flexible and timely basis in order for the non-profit to move expeditiously on targets of opportunity and to meet funding application deadlines. Pre-commitments of funding greatly assist non-profits to secure financing from other outside sources. Precedence for this type of funding pre-commitment can be found in the March 15, 1988 contract which pledged \$300,000 for the first Mutual project. Executive Director authority to approve the predevelopment loan, in consultation with an ad hoc committee of the Commission, would also facilitate its timeliness.

The stipulation that any loan monies paid back by the Mutual to the Agency be committed to a non-profit predevelopment loan fund represents a new policy for the Agency. Staff feels such a move will encourage maximum leveraging of Agency funds by the Mutual. This policy will provide a ready source of predevelopment money for non-profits in the future.

VOTE AND RECOMMENDATION OF COMMISSION

At its meeting of November 28, 1990 the Sacramento Housing and Redevelopment Commission adopted a motion recommending adoption of the attached resolution. The votes were as follows:

AYES: Amundson, Diepenbrock, Moose, Pernel, Simon,
Strong, Wiggins, Williams, Yew, Simpson
NOES: None
ABSENT: Wooley

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RECOMMENDATION

Staff recommends adoption of the attached resolution by the Redevelopment Agency of the City of Sacramento which:

- 1) Finds that the development by the Sacramento Mutual Housing Association of an affordable housing project within the City of Sacramento, even if outside of the Downtown Redevelopment Area, will be of benefit to said Area.
- 2) Allocates the sum of \$200,000 in Downtown redevelopment tax increment funds from the 1990 Tax Allocation Bond proceeds for the Sacramento Mutual Housing Association's second project.
- 3) Delegates authority to the Executive Director, in consultation with an ad hoc committee of the Sacramento Housing and Redevelopment Commission, to give preliminary approval of the site of Sacramento Mutual Housing Association's second project for use of Agency loan funds.
- 4) Authorizes the Executive Director, in consultation with an ad hoc committee of the Sacramento Housing and Redevelopment Commission, for a period of six months from the date of this resolution, to approve not more than \$15,000 of the \$200,000 as an unsecured predevelopment loan, without interest, and to disburse such loan funds at such time as the Sacramento Mutual Housing Association submits a predevelopment loan application which is sufficient as determined by Agency staff and which meets the criteria outlined in Attachment A. If Agency approves an acquisition and construction loan as herein provided, the unpaid balance of the predevelopment loan shall be added to and be a part of the acquisition and construction loan. If Agency does not approve the acquisition and construction loan, the predevelopment loan shall become due and payable five years from the date disbursed.

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- 5) Stipulates that the remainder of the \$200,000 shall be available for a period of one year from the date of this resolution, for an acquisition and construction loan, without interest, secured by real property, payable upon receipt by the Sacramento Mutual Housing Association of permanent financing. Such loan funds shall be disbursed in accordance with a schedule established at such time as the Agency approves the Sacramento Mutual Housing Association's complete project proposal as described in Attachment B.
- 6) Stipulates that the Agency shall deposit all sums received in repayment of the predevelopment or acquisition and construction into a non-profit predevelopment loan fund.

Respectfully Submitted,



ROBERT E. SMITH
Executive Director

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

Contact Person: Thomas V. Lee, 440-1357

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RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF _____

**FUNDING AUTHORITY FOR SACRAMENTO MUTUAL HOUSING
ASSOCIATION SECOND PROJECT;
DELEGATION OF ALLOCATION FOR PREDEVELOPMENT LOAN
AND PRELIMINARY SITE APPROVAL;
NON-PROFIT PRE-DEVELOPMENT LOAN FUND;
SACRAMENTO MUTUAL HOUSING ASSOCIATION PRIORITY FUNDING**

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

Section 1: The Redevelopment Agency of the City of Sacramento finds that the development by the Sacramento Mutual Housing Association of an affordable housing project within the City of Sacramento, even if outside of the Downtown Redevelopment Area, will be of benefit to said Area.

Section 2: The sum of \$200,000 in Downtown redevelopment tax increment funds is allocated from the 1990 Tax Allocation Bond proceeds for the Sacramento Mutual Housing Association's second project.

Section 3: The Agency delegates authority to the Executive Director, in consultation with an ad hoc committee of the Sacramento Housing and Redevelopment Commission, to give preliminary approval of the site of Sacramento Mutual Housing Association's second project for use of Agency loan funds.

Section 4: The Executive Director, in consultation with an ad hoc committee of the Sacramento Housing and Redevelopment Commission, is authorized, for a period of six months from the date of this Resolution, to approve not more than \$15,000 of the \$200,000 as an unsecured predevelopment loan, without interest, and to disburse such loan funds at such time as the Sacramento Mutual Housing Association submits a predevelopment loan application which is sufficient as determined by Agency staff, and which meets the criteria outlined in Attachment A of the staff report attached. If Agency

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RESOLUTION NO.: _____

DATE ADOPTED: _____

approves an acquisition and construction loan as herein provided, the unpaid balance of the predevelopment loan shall be added to and be a part of the acquisition and construction loan. If Agency does not approve the acquisition and construction loan, the predevelopment loan shall become due and payable five years from the date disbursed.

Section 5: The remainder of the \$200,000 shall be available, for a period of one year from the date of this Resolution, for an acquisition and construction loan, without interest, secured by real property, payable upon receipt by the Sacramento Mutual Housing Association of permanent financing. Such loan funds shall be disbursed in accordance with a schedule established at such time as the Agency approves the Sacramento Mutual Housing Association's complete project proposal as described in Attachment B of the staff report attached.

Section 6: Agency shall deposit all sums received in repayment of the predevelopment or acquisition and construction into a non-profit predevelopment loan fund.

CHAIR

ATTEST:

SECRETARY

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RESOLUTION NO.: _____

DATE ADOPTED: _____

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

ATTACHMENT A

SACRAMENTO MUTUAL HOUSING ASSOCIATION PREDEVELOPMENT LOAN SUBMITTAL REQUIREMENTS AND CRITERIA

- a. **Project Proposal:** In order to obtain a predevelopment loan, the Mutual must submit an application describing:
- 1) Site and site location.
 - 2) Any known constraints to development.
 - 3) Proposed development.
 - 4) Estimate of total acquisition and development costs.
 - 5) Proposed sources of construction and permanent financing.
- b. **Project Criteria:** Site suitability will be evaluated by the following criteria:
- 1) Site must be reasonably accessible to public transportation, shopping and amenities.
 - 2) Any known constraints to development appear to be mitigable.
 - 3) Acquisition costs for the site, and/or structure if applicable, appear to be reasonable.
 - 4) Preliminary estimates of total development costs per unit should indicate financial feasibility.
 - 5) Proposed sources of financing appear to be available and viable.

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ATTACHMENT B

SACRAMENTO MUTUAL HOUSING ASSOCIATION ACQUISITION/CONSTRUCTION LOAN SUBMITTAL REQUIREMENTS AND CRITERIA

- a. Project Proposal: In order to obtain an acquisition/construction loan, the Mutual must submit a complete project proposal including:
- 1) Narrative description of proposed project, including such items as the number of units, size and mix of bedrooms, rents, facilities provided, type of construction, etc.
 - 2) Site plans, floor plans, preliminary architectural renderings and specifications.
 - 3) Estimated project costs.
 - 4) Proformas incorporating rent structure, project costs and proposed financing package.
 - *** 5) Evidence of commitment for the balance of the acquisition and construction financing needs.
 - *** 6) Evidence of commitment for take-out financing sufficient to repay all construction loans.
 - 7) Preliminary management plan.
 - 8) Schedule of performances.
- b. Project Criteria: The project proposal will be evaluated on the basis of the following criteria:
- 1) If new construction, preliminary project design must be attractive and take into account such aspects as security, design harmony with the surrounding neighborhood, and pleasant common areas.
 - 2) If rehabilitation, the planned rehabilitation must be sufficient and meet Agency rehabilitation standards.

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- 3) Project affordability must be such that, at a minimum, 20% of the units must be affordable to households earning less than 80% of area median income.
- 4) Total development cost per unit must be at the lowest level commensurate with reasonably high quality construction.
- 5) Project must leverage Agency funds with other sources of government and private financing and the proposed financing package must appear to be viable.
- 5) Preliminary management proposal for the project must be realistic and sound.

*** Note: The Agency will provide conditional commitment letters to the Mutual as needed to obtain additional acquisition, construction and permanent financing from other sources.