



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



February 10, 1987

Budget and Finance Committee
of the City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Proposed Interim Program Changes for Management of the
Housing Rehabilitation Program

SUMMARY

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

RECOMMENDATION

The staff recommends approval of the attached resolutions authorizing staff to cease accepting applications for deferred loans and approving funding allocations from the Emergency Repair Program to the Loan Program.

Respectfully submitted,

William H. Edgar
WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:

Jack R. Crist
JACK R. CRIST
Deputy City Manager

Attachment

00960



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



February 6, 1987

Redevelopment Agency of the
City of Sacramento
City Council of the
City of Sacramento
Sacramento, California 95814

Honorable Members in Session:

SUBJECT: Proposed Interim Program Changes for Management of the
Housing Rehabilitation Program

SUMMARY

(1) Review of the changes made to our Housing Rehabilitation Program policies in 1985. (2) Recommendations for approval of further changes to the Housing Rehabilitation Program due to the projected expenditure for the previous backlog of funding. (3) Brief report on the future direction in the financing of Housing Rehabilitation.

BACKGROUND

In 1985, an evaluation of the City and County Housing Rehabilitation Program was conducted and reported to the Sacramento Housing and Redevelopment Commission, the Council, and the Board. As you may recall, the major findings of the report were:

1. Sacramento had over 18,000 housing units that required rehabilitation to prevent the loss of this type of affordable housing stock through deterioration.
2. New construction is not meeting the community demand for housing affordable to low income families, and, most importantly, cannot meet the low-income housing needs in terms of affordability.

(1)

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3. The need for housing rehabilitation and the concentrations of lower income persons are widely dispersed within the City and County. For example, only 17.6% of the low-income persons within the City live in Community Development Block Grant target areas, and in the County the figure is only 15.8%.
4. While limited success was being realized, the rehab program had been experiencing limited market success and a very high drop-out rate. The most frequent reasons for drop-out were a) the program requirements for "full code compliance", often requiring the applicant to borrow more than they felt comfortable with borrowing; and b) title and income barriers in eligibility (particularly for single parent families). The cumulative effect of these problems, over time, had resulted in an unused backlog of loan funds available which, as of January 1986, was projected to be \$5,986,400.*
5. The traditional "full service" program offered suffered from a lack of property owner and contractor involvement and resulted in a "handholding" dependancy on, and burdening of, the program administratively. A continued full service program would be unable to produce the volume required to begin to make an impact of the identified units in need of rehab, particularly in light of dwindling administrative funding.

These findings underscored the need for a revised rehabilitation program which addressed the areawide housing preservation needs and which provided a more available and attractive program. As noted above, due to the prior limited success of the program, a great deal of carry-over funding had pooled. This fact further laid emphasis on the need to develop a more progressive program that would motivate low-income homeowners into rehabilitating their homes, and thereby encourage community reinvestment in the housing stock.

Three major revisions to the program that were implemented specifically to address these considerations were:

* This figure includes \$2,419,000 in CDBG funding, \$857,000 in Revolving Fund account, \$365,400 in FIB deposits, \$695,000 in Rental Rehabilitation Block Grant, and \$1,650,000 in other bond and miscellaneous revenues

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1. The opening of the program City- and County-wide to low- and moderate-income households. This change was accompanied by a tentative out-of-area funding cap of 75% of all loan funds. This cap was placed to secure at least 25% of available funding for the financing of rehabilitation within the target areas. (Of the total 1986 expenditures, 36% of City funding and 35% of County funding went to the financing of rehabilitation within the City and County CDBG target areas).
2. A CDBG funded Direct Loan Program, providing a 15 year, zero percent interest rate loan with payments deferred for the full term, and a forgiveness clause providing an incremental principal reduction of one-third every five years, providing the borrower maintains occupancy. Program does not require full code compliance.
3. Streamlining of the rehabilitation procedure (Fast Track), providing the borrower (and contractor) with a great deal more responsibility and input throughout the process and minimizing the "government" involvement while maintaining essential controls.

Midway through 1986, with the Fast Track Program firmly in place and after a very successful marketing campaign for the Direct Loan Program and the areawide availability, production statistics increased dramatically. The Direct Loan Program proved very popular, contributing, along with the fast track areawide approach, to the final 1986 quarter production being the highest on record. With the current number of applications now being processed, projections for the first and second quarters of 1987 indicate a continued trend of very high production.

Currently, the Rehabilitation Division has in process, with preliminary commitment to fund, 173 clients for an estimated funding amount of approximately \$2.9 million. It is estimated that up to 20% of these clients will not be funded due to a) the applicant not providing bids for the work within the established program time limits, or b) late developing title or income problems, leaving a projected demand of \$2.4 million. Current available CDBG funding for these loans plus projected program income from the Revolving Loan Fund through June 1987 is \$2.0 million. Available funding less anticipated loans indicates a future funding deficit of approximately \$400,000 (see Exhibit A).

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A major contributing factor in this unprecedented increase in demand for program funding is client willingness to do a more complete rehabilitation of their property, including incipient code violations, when the additional work is not going to negatively impact them with an increased loan payment (due to loan payment deferral). While this is a positive aspect, in the sense that the value and economic life of the property, hence the community housing stock, have increased, it has resulted in very rapid commitment of program funds. (Exhibit B identifies the total number of units in all programs committed since January 1986).

To insure funding for those clients to whom we have given a preliminary commitment, staff is recommending that \$626,679 in funding currently slated for the Emergency Repair Program (ERP), less a special ERP set aside of \$100,000, be approved for use in funding rehabilitation loans. The special ERP set aside would be for use in dire emergencies where life or public health and safety is severely threatened and no other readily available means are present to alleviate the endangerment. Upon funding of all committed loans, reactivation of the ERP program would be automatic. Unspent ERP monies, including the special ERP set aside funds would automatically revert to availability for use under the ERP program.

At this time, therefore, in order to prevent our over-committing to loans under the program, staff is recommending that applicants recently applying to the program who have not been given a preliminary funding commitment, be notified that funding under the Direct (i.e. deferred-forgivable) Loan Program is no longer available. Those applicants who are eligible for a loan would, at this time, be assisted in obtaining a HUD 312 or State Deferred Payment Loan which, while not as attractive as a locally funded loan, still provides for a very attractive loan package (the 312 program is at 3% and the State program provides for a 3% deferred payment loan). The balance of 1987 would be consumed with clearing the pipeline of committed loans (six to eight months), marketing available Section 312 and other available programs, working the rental rehabilitation program, and limited emergency repair efforts.

Ideas for 1988 and the future are discussed under Policy Implications, below, and will be more fully developed in a subsequent report.

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POLICY IMPLICATIONS

The successful commitment of our backlogged loan funds implies several necessary policy changes to the program which we will have to make in the near future.

Obviously, more emphasis will have to be placed on marketing of the Section 312 and State funded loans.

We are currently undertaking to market a housing rehabilitation bond issue in 1987. Given limited CDBG funds in the future, it would seem most logical to use those funds to "write down" the interest rate on bond funds for those families earning less than 80% of median income. This would imply either elimination or severe curtailment of our deferred/forgiven program. (Funds at the "bond" rate could be provided to those earning 80% to 120% of median.) Limited availability of funds for the retrofit program would also seem justified.

Another option would be to commit some of the neighborhood level tax increment funds to the rehab program (this has not been the general practice in the past) for a small, highly targeted deferred/forgiven program. This option would, of course, have to be developed in conjunction with the individual Project Area Committees.

Specifically, developed rehab efforts such as the Sequoia Hotel, several of our Alkali Flat projects, and co-sponsored efforts with Rural California Housing Corporation and other non-profit organizations will also be pursued.

A 1988 program might thus include:

- a. Subsidized bond funds using available CDBG funding to write-down the costs
- b. A small retrofit and emergency repair program
- c. Non-subsidized bond funds for the moderate income group
- d. Available 312 and State funded loans
- e. The Rental Rehabilitation Block Grant program
- f. One or more individually developed projects
- g. A highly targeted tax increment funded program
- h. Ongoing support for the Neighborhood Housing Services (NHS) programs in Oak Park/Fruitridge and North Sacramento

As mentioned above, we will be reporting back with a full report on the policy changes needed to implement this kind of a future effort.

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FINANCIAL DATA

See above and Exhibit B.

ENVIRONMENTAL REVIEW

Non-project specific policy changes within our rehabilitation program are exempt from environmental review. Individual projects within the program are reviewed as necessary.

VOTE AND RECOMMENDATION OF THE COMMISSION

It is anticipated that at its special meeting of February 9, 1987, the Sacramento Housing and Redevelopment Commission will recommend approval of the above action. In the event they fail to do so, you will be advised prior to your February 10, 1987 meeting.

RECOMMENDATIONS

- 1) Approve the Interim Program changes recorded in this report including:
 - a. Cessation of the taking of applications for deferred/forgiven loans and referral of applicants to whom a commitment has not been made to the Section 312 and/or other available programs.
 - b. Shifting of funds from the Emergency Repair Program to the Rehabilitation Program, as required, to fund loans, leaving a minimum balance of \$100,000 in the ERP program for absolute emergencies.
- 2) Direct Agency staff to report back by June 1, 1987 with the permanent policy changes needed to comport with the funding realities we face in 1988 and beyond.

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3) Congratulate the Rehabilitation staff for successfully reaching out and assisting in the rehabilitation and/or repair of over 1,195 units of ownership and rental housing since January of 1986.

Respectfully submitted,


WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

Contact Person: John Molloy, 440-1357

(10511)

(7)

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO
ON DATE OF

IMPLEMENTATION OF INTERIM PROGRAM CHANGES FOR MANAGEMENT OF THE HOUSING REHABILITATION PROGRAM

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

Section 1: The Executive Director is authorized to approve the Interim Program Changes for the Housing Rehabilitation Program contained in the staff report file with this Resolution, including without limitation, the following:

- a. Cease taking applications for deferred/forgiven loans and refer applicants to whom a commitment has not been made to the Section 312 and/or other available programs.
- b. Shift funds from the Emergency Repair Program to the Rehabilitation Program, as required, to fund loans, leaving a minimum balance of \$100,000 in the ERP program for emergencies.

Section 2: The Agency staff is directed to report back by June 1, 1987 with the permanent policy changes needed for funding realities in 1988 and beyond.

Section 3: The Agency congratulates the Rehabilitation staff for successfully reaching out and assisting in the rehabilitation and/or repair of over 1,195 units of ownership and rental housing since January of 1986.

CHAIR

ATTEST:

SECRETARY

0736L

RESOLUTION No.

Adopted by The Sacramento City Council on date of

IMPLEMENTATION OF INTERIM PROGRAM CHANGES FOR MANAGEMENT OF THE HOUSING REHABILITATION PROGRAM

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

Section 1: The Executive Director is authorized to approve the Interim Program Changes for the Housing Rehabilitation Program contained in the staff report file with this Resolution, including without limitation, the following:

- a. Cease taking applications for deferred/forgiven loans and refer applicants to whom a commitment has not been made to the Section 312 and/or other available programs.
- b. Shift funds from the Emergency Repair Program to the Rehabilitation Program, as required, to fund loans, leaving a minimum balance of \$100,000 in the ER program for emergencies.

Section 2: The Agency staff is directed to report back by June 1, 1987 with the permanent policy changes needed for funding realities in 1988 and beyond.

Section 3: The Agency congratulates the Rehabilitation staff for successfully reaching out and assisting in the rehabilitation and/or repair of over 1,195 units of ownership and rental housing since January of 1986.

MAYOR

ATTEST:

CITY CLERK

0736L

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

EXHIBIT A

REPORT : CDBG DIRECT REHAB LOAN FUNDING PROJECTION 1987
 DEPARTMENT: COMMUNITY DEVELOPMENT
 ACTIVITY : HOUSING REHABILITATION
 RUN DATE : FEBRUARY 1987

DESCRIPTION	CITY		COUNTY		TOTAL	
	# OF CASES	AMOUNT	# OF CASES	AMOUNT	# CASES	AMOUNT
FUNDING SOURCES						
FIB DEPOSIT		63,471		154,945		218,416
CDBG CARRYOVER		320,598		642,870		963,468
CDBG '87 BUDGET		300,000		275,000		575,000
* REVOLVING LOAN POOL (PROJECTED)		180,000		180,000		360,000
TOTAL BUDGET		864,069		1,252,815		2,116,884
EXPENDITURE COMMITMENTS						
PROJECTS WITH PRELIMINARY LOAN COMMITMENTS	71	1,243,294	102	1,626,410	173	2,869,704
DROP-OUT @ 20% OF PROJECTS IN THE BID PROCESS	7	111,000	16	234,000	23	345,000
TOTAL/BALANCE	64	(268,225)	86	(139,595)	150	(407,820)
FUND REALLOCATION						
EMERGENCY REPAIR PROGRAM (LESS 100K SET ASIDE)		288,300		238,379		526,679
BALANCE		20,075		98,784		118,859

* Projected over 6 months
 @ \$30,000 p/month City/County

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EXHIBIT B

REPORT : FUNDING COMMITMENTS 1986
 DEPARTMENT: COMMUNITY DEVELOPMENT
 ACTIVITY : HOUSING REHABILITATION
 RUN DATE : FEBRUARY 3, 1987

PROGRAM	UNITS ASSISTED	PROGRAM CONTRIBUTION	PRIVATE CONTRIBUTION
RENTAL REHAB BLOCK GRANT *	165	489,000	512,750
CHFA RENTAL REHAB *	25	406,000	
CDBG REHAB LOANS AND RETROFIT GRANTS *	223	2,400,740	
FIB LEVERAGED LOANS *	4	18,360	61,200
312/SB966 REHAB LOANS *	3	30,400	
EMERGENCY REPAIR GRANTS *	755	786,934	
SELF HELP HOUSING *	20	40,000	
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TOTAL *	1,195	\$4,171,434 +	\$573,950 = \$4,745,384

SPECIAL MEETING

BUDGET AND FINANCE COMMITTEE AGENDA

Tuesday, February 10, 1987
4:00 P.M.

City Council Chambers
915 I Street
Location: Sacramento, California

1. Res. adding 2.0 FTE positions to the Facility Management Division. These positions will be funded from CIP funds and will have no impact on the General Fund. (D-All)

RECOMMENDATION OF STAFF: RECOMMEND APPROVAL AND FORWARD TO COUNCIL

2. Informational report on status of the Minority Business Enterprise/Women's Business Enterprise (MBE/WBE) Procurement Program. (D-All)

HOUSING AUTHORITY

3. Res. approving budget amendment to facilitate reorganization of Community Services Division Programs. (D-All)

RECOMMENDATION OF STAFF: APPROVE AND FORWARD TO COUNCIL

REDEVELOPMENT AGENCY

4. Res. approving actions relating to the Agency's Rehabilitation Program:
 - A. Authorize staff to cease accepting applications for deferred loans.
 - B. Approve funding allocations from the Emergency Repair Program to the Loan Program.

RECOMMENDATION OF STAFF: APPROVE AND FORWARD TO COUNCIL

Members: Serna, Chinn, Pope

SPECIAL MEETING

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4:00 P.M.

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2. Informational report on status of the Minority Business Enterprise/Women's Business Enterprise (MBE/WBE) Procurement Program. (D-All)

HOUSING AUTHORITY

3. Res. approving budget amendment to facilitate reorganization of Community Services Division Programs. (D-All)

RECOMMENDATION OF STAFF: APPROVE AND FORWARD TO COUNCIL

REDEVELOPMENT AGENCY

4. Res. approving actions relating to the Agency's Rehabilitation Program:
 - A. Authorize staff to cease accepting applications for deferred loans.
 - B. Approve funding allocations from the Emergency Repair Program to the Loan Program.

RECOMMENDATION OF STAFF: APPROVE AND FORWARD TO COUNCIL

Members: Serna, Chinn, Pope