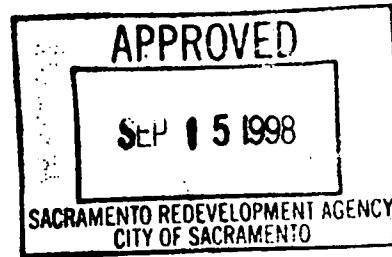




1.1

September 2, 1998



Redevelopment Agency of
the City of Sacramento
Sacramento, California

Honorable Members in Session:

**SUBJECT: SACRAMENTO MUTUAL HOUSING ASSOCIATION NORWOOD
ESTATES – MORTGAGE REVENUE BOND ADMINISTRATIVE FUND
GRANT**

LOCATION & COUNCIL DISTRICT: 3350 Norwood Avenue, District 2

RECOMMENDATION

Staff recommends adoption of the attached resolution, which authorizes the Executive Director or her designee to:

- provide a grant to the Sacramento Mutual Housing Association (SMHA), a California nonprofit corporation, in an amount not to exceed \$200,000 contingent upon a matching commitment of \$300,000 from other sources, and an interest rate reduction and reamortization of the permanent financing provided by Washington Mutual;
- amend the Agency budget by transferring \$200,000 from the Mortgage Revenue Bond Developer Assistance project to the Sacramento Mutual Housing Association Norwood Estates project; and,
- execute a grant agreement.

CONTACT PERSON

Beverly Fretz-Brown, Director, Development Services, 440-1347
Connie Schmidt, Manager, Portfolio Management, 440-1368

FOR COUNCIL MEETING OF: September 15, 1998

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency of
the City of Sacramento
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SUMMARY

This report requests authorization to provide a \$200,000 grant to the Sacramento Mutual Housing Association for Norwood Estates from mortgage revenue bond administrative proceeds appropriated in the 1998 Sacramento Housing and Redevelopment Agency (SHRA) budget. The purpose is the restructuring of the property's debt in conjunction with all other financial partners.

COMMISSION ACTION

At its meeting of September 2, 1998, the Sacramento Housing and Redevelopment Commission recommended approval of the attached resolution. The votes were as follows:

AYES: Dpbbins, Hoag, Holloway, Newsome, Rotz, Simon, Harland

NOES: None

NOT PRESENT TO VOTE: Amundson

ABSENT: Castello, Cespedes, Taylor

BACKGROUND

In May 1992, the Redevelopment Agency approved loans to Norwood Housing Associates, a California limited partnership, totaling \$423,181 for predevelopment and construction of a 44 unit affordable apartment development on Norwood Avenue in Del Paso Heights (Attachment I: Project Location – Norwood Estates). The Agency loans are subordinate to a Washington Mutual (formerly American Savings) first of \$1,047,348 and an Affordable Housing Program (AHP) second of \$372,652.

Rents needed to support the Washington Mutual debt and fund project reserves have not been achievable in the Del Paso Heights lower-income community in which the project is located and project operations have resulted in deficits that the SMHA cannot continue to sustain. SMHA has requested Agency assistance, with participation of Washington Mutual, the Neighborhood Reinvestment Corporation, and NAPICO, their tax credit partner, for financial restructuring of the project debt.

The Project

Norwood Estates Apartment was developed by Norwood Housing Associates, a California limited partnership. The general partner is Mutual Housing Corporation, a California nonprofit corporation, which is a subsidiary corporation of Sacramento Mutual Housing Association. The tax credit limited partner is NAPICO.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

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The project has 44 apartments in six two-story structures and a community building. There are 22 two-bedroom units and 22 three-bedroom units. Rents for nine units must be affordable to persons earning less than 50% of median income and for 35 units affordable to persons earning less than 60% of median income. Household eligibility and rents are governed by a 50-year regulatory agreement.

Project Operations

The project has consistently operated with a negative cash flow for the past three years of operation (1995 – 1997). A summary cash flow statement is included as Attachment II. All excess cash remaining from capital contributions has been used to fund the project's negative cash flow. In addition, the SMHA has loaned the project \$65,232 and has not collected fees totaling \$35,344 for resident organizing.

Rents for the project's two-bedroom units at \$450 and for the three-bedroom units at \$500 exceed those of comparable affordable housing projects in the immediate area. This disparity is reflected in the average vacancy rate of 15% for the three most recent operating years (1995-7%, 1996-14.9%, and 1997-24.5%).

Operating expenses, excluding interest and depreciation/amortization, for the three years average \$4,021 per unit.

1995	\$155,216
1996	170,047
1997	205,089

Unit turnover of 61.4% in 1996 and 56.8% in 1997 contributed substantially to the increased operating costs shown above.

The company managing the project during 1995-97 has been terminated, and a new company has been engaged.

Permanent Financing

Washington Mutual – 1 st	\$1,047,348
Federal Home Loan Bank AHP – 2 nd	372,652
Redevelopment Agency City of Sacto – 3 rd	423,181
NAPICO – capital contributions	<u>1,497,102</u>
Total	\$3,340,283

The terms of Washington Mutual's first mortgage provide for an adjustable interest rate capped at 13.25% for 15 years. The interest rate is adjusted monthly and monthly payments are adjusted annually. The current interest rate is 7.737% resulting in monthly payments of \$7,501. The loan balance at July 1, 1998 is \$1,001,928.

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The Federal Home Loan Bank Affordable Housing Program second mortgage of \$372,652 provides for no monthly payment and is non-interest bearing through January 1, 2009 subject to the project's compliance with regulations of the Low-Income Housing Tax Credit Program. The Agency loans of \$423,181 at 3% simple interest for a 40-year term provide for deferral of principal and interest payments in five-year increments if the project operations cannot support the debt payments.

As of December 31, 1997, NAPICO has made \$1,454,234 of their capital contributions to the project. The limited partnership agreement provides for the remaining \$42,868 of capital contribution to be used to fund distributions to the limited partner.

Restructuring Proposal

Attachment III, Norwood Estates Cash Flow Projection, has been prepared based on the following assumptions:

1. Rents will be reduced to increase marketability of units and tenant retention.

	<u>Current</u>	<u>New</u>
2 BR 50% of median	\$425	\$400
2 BR 60% of median	450	425
3 BR 60% of median	500	450

Vacancy loss is projected at 5%.

2. Using funds raised for this restructuring, the Washington Mutual first mortgage will be paid down to \$667,428. The loan is amortized over 30 years, and the interest rate fixed.
3. Operating expenses will be reduced to \$3,154 per unit. The SMHA anticipates this can be accomplished by reducing costs associated with unit turnover and vacancies and eliminating the annual fee for SMHA resident organizing.
4. An annual amount of \$400 per unit will be deposited in monthly payments of \$1,467 to a segregated Replacement Reserve account.
5. The balance of restructuring funds available after the pay down of the Washington Mutual first mortgage will be deposited in the segregated bank account designated for Replacement Reserve.
6. The Portfolio Management Unit of the Agency will monitor project operations and maintenance of reserves on a quarterly basis.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

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September 2, 1998
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FINANCIAL CONSIDERATIONS

Amend the Agency budget to transfer \$200,000 from the Mortgage Revenue Bond Developers Assistance Project to the Sacramento Mutual Housing Association Norwood Estates Project.

POLICY CONSIDERATIONS

This proposed action is consistent with Agency policy to preserve the viability of affordable housing projects and to insure the proper management of the affordable housing projects.

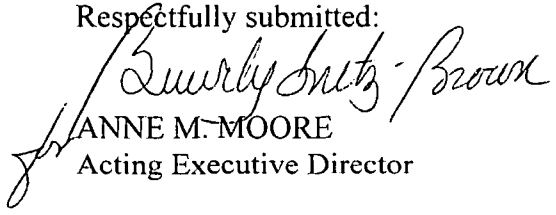
ENVIRONMENTAL REVIEW

The proposed action is exempt from CEQA per Guidelines Section 15310 (3), and is not a federal undertaking under NEPA. All actions are consistent with previous environmental reviews and approvals.

M/WBE CONSIDERATIONS

The items discussed in this report have no M/WBE impact; therefore M/WBE considerations do not apply.

Respectfully submitted:


ANNE M. MOORE
Acting Executive Director

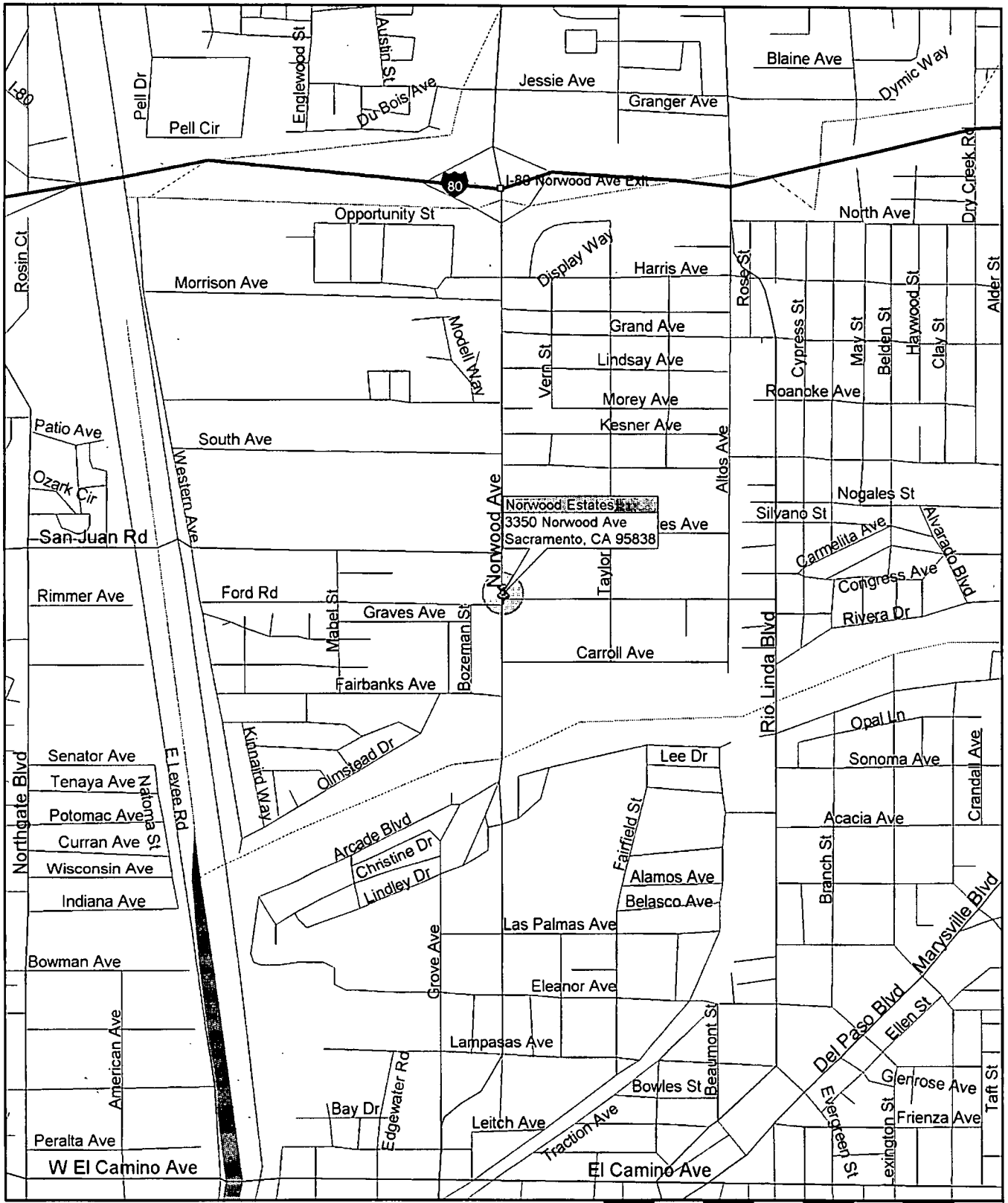
Transmittal approved:


WILLIAM H. EDGAR
City Manager

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Norwood Estates

3350 Norwood Avenue, Sacramento



Microsoft Encarta
Streets98

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**NORWOOD ESTATES
CASH FLOW STATEMENT**

	1995	1996	1997	Total
Net Rental Income	224,746	208,040	186,586	619,372
Other Income	7,313	10,143	11,977	29,433
Total Income	232,059	218,183	198,563	648,805
Operating Expenses	-155,216	-170,047	-205,089	-530,352
Principal and Interest - Washington Mutual	-82,568	-100,386	-89,049	-272,003
Net Cash Flow	<u>-5,725</u>	<u>-52,250</u>	<u>-95,575</u>	<u>-153,550</u>

Norwood Estates
Cash Flow Projection

run: 08/17/98

Cash Flow Assumptions

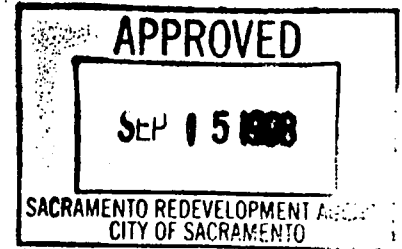
Units	44
Avg size (sq ft)	946
Gross potential	\$228,300
Rent psf	\$0.46
Annual rent increase	2.0%
CPI	3.0%
Vacancy rate	5.0%
Operating exp.	\$3,154
Replacement reserves/unit	\$400
Operating reserves ('98 exp)	2.0%
1st mortgage	\$667,428
Remaining term (years)	30
Interest rate (fixed)	8.200%

Workout Assumptions

1st mortgage paid down:	\$334,500
(reamortized over 30 yrs)	
Reserve funding:	165,500
Total required funds	<u>\$500,000</u>

Current
26
(cap on adjustable rate prior to restructuring is 13.25%)

	1998 year 1	1999 year 2	2000 year 3	2001 year 4	2002 year 5	2003 year 6	2004 year 7	2005 year 8	2006 year 9	2007 year 10	2012 year 15	2017 year 20	2022 year 25	2027 year 30
Stabilized Cash Flow														
Revenue														
Gross potential	\$228,300	232,866	237,523	242,274	247,119	252,062	257,103	262,245	267,490	272,840	301,237	332,590	367,206	405,425
Vacancy	(11,415)	(11,643)	(11,876)	(12,114)	(12,356)	(12,603)	(12,855)	(13,112)	(13,374)	(13,642)	(15,062)	(16,629)	(18,360)	(20,271)
Other income	7,000	7,140	7,283	7,428	7,577	7,729	7,883	8,041	8,202	8,366	9,236	10,198	11,259	12,431
Total income	223,885	228,363	232,930	237,589	242,340	247,187	252,131	257,173	262,317	267,563	295,412	326,158	360,105	397,585
Operating expenses	(138,766)	(142,929)	(147,217)	(151,633)	(156,182)	(160,868)	(165,694)	(170,665)	(175,785)	(181,058)	(209,896)	(243,327)	(282,083)	(327,011)
Net operating cash flow	85,119	85,434	85,713	85,955	86,158	86,319	86,437	86,509	86,532	86,505	85,515	82,831	78,022	70,574
Reserves														
Replacement	(17,618)	(17,618)	(17,618)	(17,618)	(17,618)	(17,618)	(17,618)	(17,618)	(17,618)	(17,618)	(17,618)	(17,618)	(17,618)	(17,618)
Operating	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)
Cash flow available for debt service	64,726	65,040	65,320	65,562	65,765	65,926	66,044	66,115	66,139	66,112	65,122	62,438	57,629	50,180
Debt service on 1st mortgage	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)
Net cash flow	4,837	5,152	5,431	5,673	5,876	6,037	6,155	6,227	6,250	6,223	5,233	2,549	(2,260)	(9,708)
Beginning cash balance	0	4,837	9,989	15,420	21,093	26,969	33,006	39,161	45,388	51,638	81,376	102,933	107,007	81,982
Ending cash balance	\$4,837	9,989	15,420	21,093	26,969	33,006	39,161	45,388	51,638	57,861	86,610	105,482	104,747	72,274
Debt coverage ratio	1.08	1.09	1.09	1.09	1.10	1.10	1.10	1.10	1.10	1.10	1.09	1.04	0.96	0.84
1st Mortgage														
Beginning balance	\$667,428	662,070	656,256	649,946	643,100	635,670	627,608	618,859	609,366	599,063	532,801	433,094	283,064	57,311
Payment	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)	(59,889)
Interest	54,531	54,074	53,579	53,042	52,459	51,826	51,140	50,395	49,586	48,709	43,067	34,576	21,801	2,577
Ending balance	\$662,070	656,256	649,946	643,100	635,670	627,608	618,859	609,366	599,063	587,884	515,979	407,782	244,977	(0)
balance checks	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	0.00	0.00	(0.00)	(0.00)	0.00	0.00	0.00	0.00



RESOLUTION NO. 98-039

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF _____

**NORWOOD ESTATES:
APPROVAL OF \$200,000 GRANT OF MORTGAGE
REVENUE BOND FUNDS; AMEND THE AGENCY BUDGET
AND APPROVE EXECUTION OF GRANT AGREEMENT**

WHEREAS, the Agency desires to preserve the viability of affordable housing projects and to insure the proper management of affordable housing projects;

WHEREAS, the Agency has budgeted Mortgage Revenue Bond funds for miscellaneous projects for housing in the 1998 budget:

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

Section 1. The Agency hereby finds that the foregoing recitals are true and that the use of Mortgage Revenue Bond funds for Norwood Estates at 3350 Norwood Avenue will preserve the viability of affordable housing in Sacramento.

Section 2. The Executive Director or her designee is authorized to provide a grant to the Sacramento Mutual Housing Association, a California Nonprofit Corporation, in an amount not to exceed \$200,000 contingent upon a matching commitment of \$300,000 from other sources and an interest rate reduction and reamortization of permanent financing provided by Washington Mutual.

Section 3. The Agency budget is amended by transferring \$200,000 from the Mortgage Revenue Bond Developers Assistance Project to the Sacramento Mutual Housing Association Norwood Estates Project.

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

Section 4. The Executive Director or her designee is authorized to execute a grant agreement and take all other actions reasonably necessary to carry out the purposes of this resolution.

CHAIR

SECRETARY

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____