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**APPROVED**  
BY THE CITY COUNCIL

**AUG 6 1998**

July 15, 1998

City Council  
Sacramento, California

OFFICE OF THE  
CITY CLERK

Honorable Members in Session:

**SUBJECT** TAX EQUITY AND FINANCIAL RESPONSIBILITY ACT (TEFRA)  
HEARING FOR SUN GARDEN PLAZA APARTMENTS

**LOCATION & COUNCIL DISTRICT** 6248 Lemon Hill Avenue, District 6

**RECOMMENDATION**

Staff recommends approval of the attached resolution which:

- Approves the issuance of \$3,400,000 in tax-exempt mortgage bonds by the Association of Bay Area Governments (ABAG) Finance to refund bonds originally authorized by the City Council for the acquisition and rehabilitation of the Sun Garden Plaza Apartments; and
- Approves the holding of a Tax Equity and Financial Responsibility Act (TEFRA) public hearing in connection with the proposed bond refunding.

**CONTACT PERSON** Beverly Fretz-Brown, Director of Housing Development, 440-1357  
Darren Bobrowsky, Associate Housing Finance Specialist, 440-1302

**FOR COUNCIL MEETING OF** August 6, 1998

**SUMMARY**

Approval is sought for 1) the issuance, by ABAG, of tax-exempt mortgage revenue bonds in the amount of \$3,400,000 to refund bonds originally authorized by the City Council for the acquisition and rehabilitation of the Sun Garden Plaza Apartments; and 2) the holding of a TEFRA public hearing related to the proposed bond issuance.

**COMMISSION ACTION**

At its meeting of July 15, 1998, the Sacramento Housing and Redevelopment Commission recommended approval of the attached resolution. The votes were as follows:

## SACRAMENTO HOUSING & REDEVELOPMENT AGENCY

City Council  
Sacramento, California  
July 31, 1998  
Page 2

AYES: Cespedes, Dobbins, Hoag, Holloway, Newsome, Rotz,  
Simon, Taylor, Harland

NOES: None

ABSENT: Amundson, Castello

### **BACKGROUND**

Sun Gardens is a 150-unit multi-family complex located at 6248 Lemon Hill Drive, Sacramento, California (see Attachment I for map). The complex was constructed in 1971 and consists of one, two, three and four bedroom apartments located in 19 buildings and a community room of approximately 1,000 square feet. Prior to the purchase of the property by the current owner, the complex had a history of social problems and disinvestment.

The project was purchased in August 1997, and the new owners are completing a \$1,055,000 rehabilitation of the property. This rehabilitation includes interior and exterior painting, security fencing, new appliances, new carpet and vinyl, parking lot repaving, and the repair/replacement of kitchen cabinets and countertops, bathroom vanities, tub surrounds, heating and air conditioning systems, dryrot/termite damage, hot water heaters, and sidewalks.

The original community room has been converted back from usage as a storage room and will be expanded. It is being utilized by the Lemon Hill Circle Association to provide tutoring, parenting classes, late night programs, and recreation activities.

### **The Developer**

Sun Garden Plaza was purchased on August 26, 1997 by Sun Garden Plaza Associates, LP, a partnership consisting of SLSM, LLC as General Partner, Community Home Builders as managing General Partner and NAPICO as the tax credit purchaser and limited partner. The purchase price was \$2,425,000 or \$16,200 per unit.

The principals of the Developer, Steve Mattoon and Scott LeFaver, are experienced in commercial real estate and housing development as well as financing structures entailing tax-exempt bonds and low-income housing tax credits. Projects completed by the principals include a 360-unit apartment project financed with tax-exempt bonds in San Jose and the 1,113-unit Fillmore Center in San Francisco completed in 1991 and financed with \$125 million in tax-exempt bonds. Recently, SLSM, LLC acquired and has begun rehabilitation of the 96-unit Kohler Gardens Apartments and 116-unit Larchmont Gardens Apartments, both located in Sacramento County. These developments use the same financing structure, with tax-exempt

## SACRAMENTO HOUSING & REDEVELOPMENT AGENCY

City Council  
Sacramento, California  
July 31, 1998  
Page 3

mortgage revenue bonds issued by the County of Sacramento. A project summary for the Sun Garden Plaza Apartments is included as Attachment II.

### The Management Agent

The Developer has appointed FPI Management, Inc. to operate the complex. FPI Management has been managing multi-family housing for 25 years. Currently, it has over 16,000 units located in California, Nevada, Colorado, and Idaho; approximately 8,000 of those are affordable housing units under many government programs. Its total portfolio includes luxury, conventional projects and senior-housing.

### Financing Plan

At the time of purchase the project was financed with a combination of tax-exempt bonds issued by ABAG in the amount of \$3,400,000, which provided the Developer with a below-market rate loan and "four percent" low-income housing tax credits to finance its acquisition and rehabilitation of the project. The original financing was approved at a TEFRA hearing on June 24, 1997 by the City Council. The bonds were initially purchased and are held by U.S. Bank through a private placement transaction and carry a 2-year term. As originally planned, the Developer has also applied to HUD for mortgage insurance on the property through the FHA 223(f) program. It is anticipated that HUD will approve this application. With this mortgage insurance, the bonds will be credit enhanced with triple-A (the highest rating) Ginnie Mae mortgage-backed securities. This will enable US Bank to remarket the bonds with a 35 year fixed rate term. This refunding is consistent with the original financing plan approved on June 24, 1997 by the City Council. A cash flow proforma is included as Attachment III. An allocation by the California Debt Limit Allocation Committee (CDLAC) is not required for refunding of outstanding tax-exempt bonds.

The TEFRA public hearing requirement is intended to advise the public of the intent to issue the refunding bonds and give interested parties the opportunity to comment on the proposed refunding. The hearing is held in the jurisdiction where the apartments are located.

### Low Income Set-aside Requirements

As a condition of receiving the benefits of the below-market rate financing associated with the bonds, federal law requires that units in a project be set aside for targeted income groups for at least 15 years. With the use of the Low Income Housing Tax Credit Program, all of the project's units will be rented to households earning 60% or below of the area's median. The Maximum Rent and Income Limits Schedule is set forth in Attachment IV. Sun Garden Plaza's low-income set-aside requirement will be specified in a regulatory agreement between the Developer, ABAG and the City that will be recorded against the property. The developers have contracted with Lemon Hill Circle to provide social services for five years.

**SACRAMENTO HOUSING & REDEVELOPMENT AGENCY**

City Council  
Sacramento, California  
July 31, 1998  
Page 4

**FINANCIAL CONSIDERATIONS**

The proposed mortgage revenue bonds refunding will not be an obligation of the City or ABAG. Instead, they will be obligations of the project owner and will be triple-A rated. All costs associated with the bond refunding will be the responsibility of the project owner.

**POLICY CONSIDERATIONS**

The actions recommended in this report are consistent with the previously approved policy including the Agency's goals of promoting rehabilitation of affordable rental housing. No policy changes are recommended. The Agency will actively monitor both the developer's compliance with the regulatory agreement and the physical condition of the property.

**ENVIRONMENTAL REVIEW**

The acquisition and rehabilitation of projects are categorically exempt from CEQA review per Guidelines Sections 15300.4 and 15301. Approval of the proposed actions is exempt from CEQA per guidelines sections 15310 and 15378 (b)(3).

**M/WBE CONSIDERATIONS**

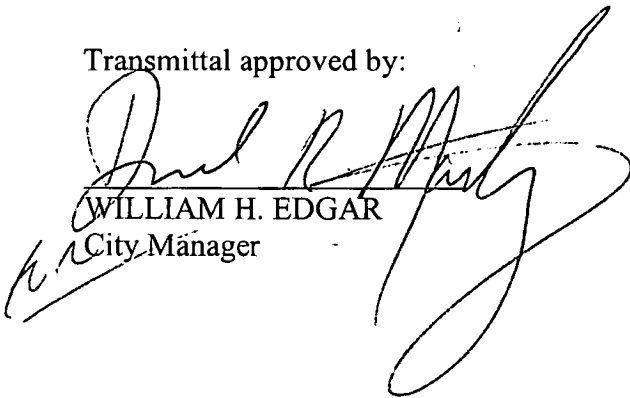
The actions described in this report have no M/WBE impact.

Respectively submitted,



Anne M. Moore  
Acting Executive Director

Transmittal approved by:



WILLIAM H. EDGAR  
City Manager

APPROVED  
BY THE CITY COUNCIL

AUG 6 1998

OFFICE OF THE  
CITY CLERK

**RESOLUTION NO. 98-400**

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF \_\_\_\_\_

**APPROVING EXECUTION AND DELIVERY  
BY THE ABAG FINANCE AUTHORITY  
FOR NONPROFIT CORPORATIONS OF A LOAN AGREEMENT  
WITH SUN GARDEN PLAZA APARTMENT ASSOCIATES, L.P.**

WHEREAS, the ABAG Finance Authority for Nonprofit Corporations, a joint exercise of powers authority consisting of California public agencies, which was created to assist nonprofit corporations and other entities to obtain financing for projects and purposes serving the public interest (the "Authority"), proposes to issue multifamily housing revenue refunding bonds (the "Bonds") in an amount not to exceed \$3,400,000 and to lend the proceeds thereof to Sun Garden Plaza Apartment Associates, L.P., a California limited partnership (the "Borrower"), pursuant to a loan or financing agreement by and between the Borrower and the Authority, to be used for the refunding of bonds originally issued to provide funds for the acquisition and rehabilitation of an apartment project known as Sun Garden Plaza Apartments, located at 6428 Lemon Hill Avenue in Sacramento, California, all to be owned and operated by the Borrower;

WHEREAS, Section 147(f) of the Internal Revenue Code of 1986 requires the issuance of the Bonds to be approved by the City Council, as the elected representative of the City of Sacramento, the host jurisdiction of the subject apartment project, after a public hearing has been held following reasonable and proper notice;

WHEREAS, a public hearing was held by the City Council on the 6th day of August, 1998, at the hour of 2:00 P.M., in the Council chambers, at 915 "I" Street, Sacramento, California, following duly published notice thereof, and all persons desiring to be heard have been heard; and

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**FOR CITY CLERK USE ONLY**

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_ (5)

WHEREAS, it is in the public interest and for the public benefit that the City Council, as the elected representative of the City of Sacramento, the host jurisdiction of the subject apartment project, approve the issuance and delivery by the Authority of the Bonds;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO:

Section 1. The City Council of the City of Sacramento hereby finds, determines and declares that issuance by the Authority of the Bonds in the maximum principal amount of \$3,400,000 for the purposes described above is hereby approved.

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MAYOR

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CITY CLERK

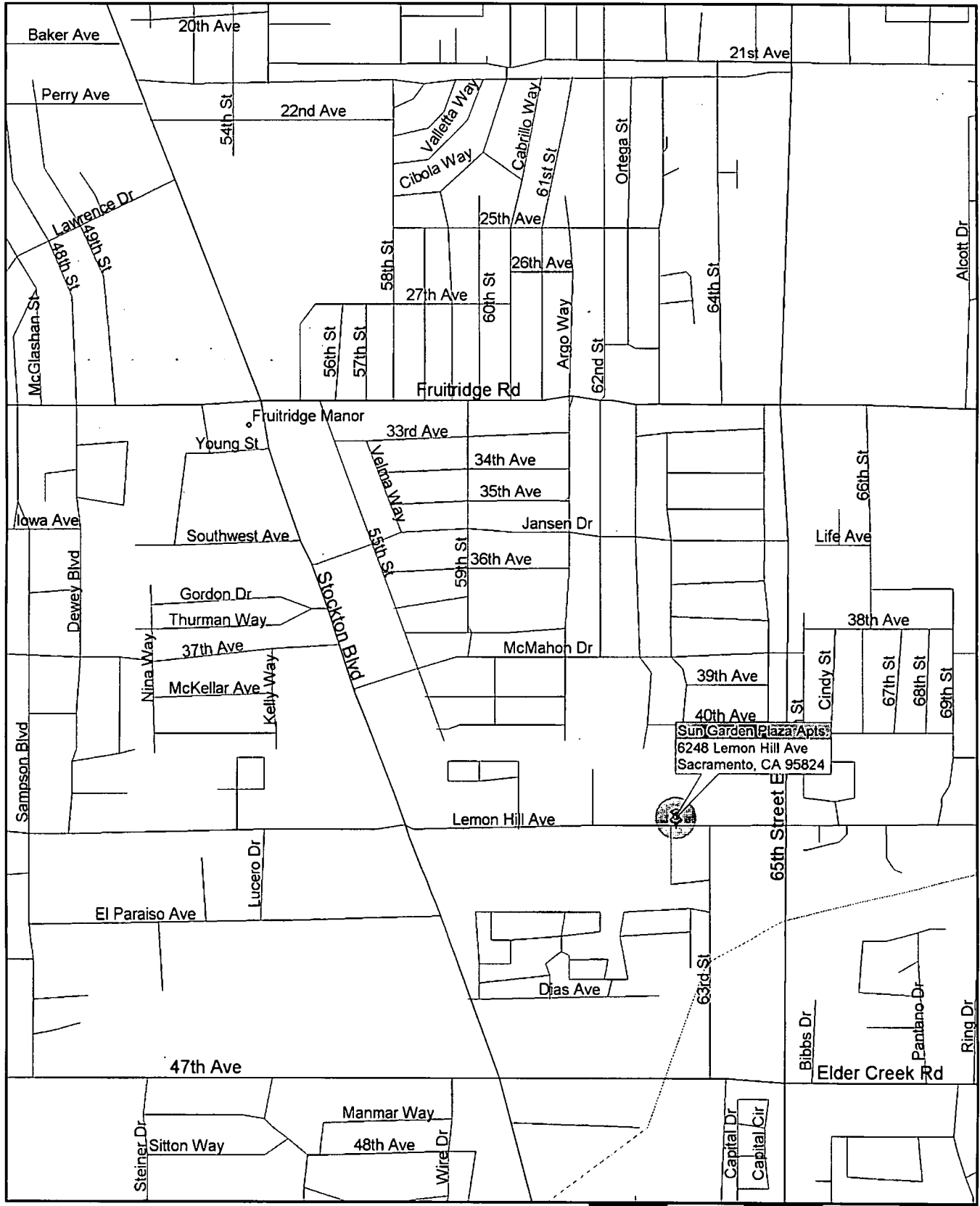
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**FOR CITY CLERK USE ONLY**

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

# Sun Garden Plaza Apartments



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## DEVELOPER'S PRELIMINARY PROPOSALS

### Sun Garden Plaza Apartments

<b>Address</b>	6248 Lemon Hill Avenue, Sacramento		
<b>Number of Units</b>	150		
<b>Year Built</b>	1971		
<b>Affordability</b>	100% of units at 60% of median		
<b>Unit Mix and Rents</b>			
1 Bedroom / 1 Bath	10 units @ \$325 per month		
2 Bedroom / 1 Bath	80 units @ \$400 per month		
3 Bedroom / 1.5 Bath	50 units @ \$450 per month		
4 Bedroom / 2 Bath	10 units @ 510 per month		
<b>Square Footage</b>			
1 BD	590 Square Feet		
2 BD	696 Square Feet		
3 BD	1,008 Square Feet		
4 BD	1,160 Square Feet		
<b>Resident Facilities</b>			
Existing	Community Room		
Proposed (New)	Enlarged Learning Center		
<b>Nonprofit Participation</b>			
Name of Entity	Community Home Builders and Associates		
Services Provided	Tutoring, recreation activities, parenting classes, late night programs, host group discussions (services provided by the Lemon Hill Circle)		
<b>Sources and Uses of Funds</b>			
Bond Proceeds	\$	3,400,000	
Limited Partner Equity (Tax Credit Investor)	\$	802,664	
Other (Construction Period Income)	\$	-	
Total Sources of Funds	\$	4,202,664	
Acquisition	\$	2,449,250	<i>Per Unit</i> 16,328
Rehabilitation / Construction	\$	1,095,000	7,300
Other Costs: Financing, Reserves & Fees	\$	658,414	4,389
Total Uses of Funds	\$	4,202,664	28,018
<b>Management - Operations</b>			
Developer	Scott LeFaver and Steve Mattoon (SLSM, LLC)		
Property Management Company	FPI Management		
Operations Budget (Total / Per Unit)	\$	383,491	2,557
Reserves (Total / Per Unit)	\$	37,500	250
Credit Enhancement	FHA		
Tax Credit Investor	NAPICO		



Sun Garden Plaza Apartments

Unit Type	Number	Square Foot	Total Sq.Ft.	Monthly Rent	Per Sq. Ft.	Gross Annl: Rent
1 Bedroom/1Bath - 60% median	10	590	5,900	\$ 325	\$ 0.55	\$ 39,000
2 Bedroom/1 Bath - 60% median	80	696	55,680	\$ 400	\$ 0.57	\$ 384,000
3 Bedroom/1.5 Bath - 60% median	50	1008	50,400	\$ 450	\$ 0.45	\$ 270,000
4 Bedroom/2 Bath - 60% median	10	1160	11,600	\$ 510	\$ 0.44	\$ 61,200
<b>Total</b>	<b>150</b>	<b>864</b>	<b>123,580</b>	<b>\$ 421</b>	<b>\$ 0.50</b>	<b>\$ 754,200</b>

	Increase/Yr	Per Unit	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15
Annualized Gross Income	2.5%	\$ 5,028	\$ 754,200	\$ 773,055	\$ 792,381	\$ 812,191	\$ 832,496	\$ 941,892	\$ 1,065,665
Other Income (unit/year)	2.5% \$ 60	60	9,000	\$ 9,225	\$ 9,456	\$ 9,692	\$ 9,934	\$ 11,240	\$ 12,717
Vacancy Rate (7%)		-352	(52,794)	(54,114)	(55,467)	(56,853)	(58,275)	(65,932)	(74,597)
<b>Effective Gross Income</b>		<b>\$ 4,736</b>	<b>\$ 710,406</b>	<b>\$ 728,166</b>	<b>\$ 746,370</b>	<b>\$ 765,030</b>	<b>\$ 784,155</b>	<b>\$ 887,200</b>	<b>\$ 1,003,785</b>
<b>Expenses</b>									
Operating and Maintenance	3.5%	900	134,952	139,675	144,564	149,624	154,861	183,926	218,446
Utilities	3.5%	643	96,500	99,878	103,373	106,991	110,736	131,520	156,204
Administrative	3.5%	429	64,347	66,599	68,930	71,343	73,840	87,698	104,158
Tenant Services	3.5%	67	10,000	10,350	10,712	11,087	11,475	13,629	16,187
Management Fees	3.5%	300	45,000	46,575	48,205	49,892	51,639	61,330	72,841
Taxes and Insurance	2.0%	218	32,692	33,346	34,013	34,693	35,387	39,070	43,136
<b>Total Operating Expenses</b>		<b>\$ 2,557</b>	<b>\$ 383,491</b>	<b>\$ 396,423</b>	<b>\$ 409,797</b>	<b>\$ 423,630</b>	<b>\$ 437,937</b>	<b>\$ 517,173</b>	<b>\$ 610,973</b>
Replacement Reserves	3.5%	250	37,500	38,813	40,171	41,577	43,032	51,109	60,701
<b>Total Expenses</b>		<b>\$ 2,807</b>	<b>\$ 420,991</b>	<b>\$ 435,235</b>	<b>\$ 449,968</b>	<b>\$ 465,207</b>	<b>\$ 480,969</b>	<b>\$ 568,282</b>	<b>\$ 671,674</b>
<b>Net Operating Income</b>		<b>\$ 1,929</b>	<b>\$ 289,415</b>	<b>\$ 292,931</b>	<b>\$ 296,402</b>	<b>\$ 299,823</b>	<b>\$ 303,186</b>	<b>\$ 318,918</b>	<b>\$ 332,111</b>
<b>Debt Service</b>		<b>\$ 1,656</b>	<b>\$248,412</b>	<b>\$248,412</b>	<b>\$248,412</b>	<b>\$248,412</b>	<b>\$248,412</b>	<b>\$248,412</b>	<b>\$248,412</b>
Cash Flow after Debt Service		\$ 273	\$41,003	\$44,519	\$47,990	\$51,411	\$54,775	\$70,506	\$83,700
Debt Coverage Ratio			1.17	1.18	1.19	1.21	1.22	1.28	1.34

## Maximum Rent and Income Restrictions

### Mortgage Revenue Bond Program

### Four Percent Low-Income Housing Tax Credit Program

(100% of units set aside for tenants at or below 60% of median income)

Income Restrictions:	
<u>Family Size</u>	<u>Income</u>
1 person	\$ 21,600
2 person	\$ 24,660
3 person	\$ 27,780
4 person	\$ 30,840
5 person	\$ 33,300

Rent Restrictions:	
<u>Unit Size</u>	<u>Rent</u>
1 Bedroom	\$ 541
2 Bedroom	\$ 641
3 Bedroom	\$ 729

**NOTICE OF PUBLIC HEARING**

Relating to  
Sun Garden Plaza Apartments Associates, L.P.

NOTICE IS HEREBY GIVEN, pursuant to Section 147(f) of the Internal Revenue Code of 1986, that on ~~Tuesday~~ <sup>THURSDAY</sup>, the 6th day of August, 1998, at the hour of 2:00 pm in the Council Chamber, at 915 "I" Street, Sacramento, CA, the City Council (the "Council") of the City of Sacramento (the "City"), will hold a public hearing on the question of whether the Council, as the applicable elected representative of the ABAG Finance Authority for Nonprofit Corporations (the "Authority") and the City, the host jurisdiction of certain proposed facilities (described below), should approve the issuance by the Authority of not to exceed \$3,400,000 of multifamily housing revenue bonds and the lending of the proceeds thereof to Sun Garden Plaza Apartments Associates, L.P., a California limited partnership (the "Borrower"), to be used for the refunding of bonds the proceeds of which were used to finance the acquisition and rehabilitation of an apartment project known as Sun Garden Plaza Apartments, located at 6428 Lemon Hill Avenue, Sacramento, California 95824, all to be owned and operated by the Borrower.

All interested individuals are invited to attend to express their views on the proposed Bond issue and the location and nature of the facilities to be financed with the proposed Bond issue. For further information contact Darren Bobrowsky, Sacramento Housing and Redevelopment Agency, 630 "I" Street, Sacramento, CA 95814 (916) 440-1399, ext. 1454.

Dated: July 22, 1998

*Recorder  
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*D.B.  
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