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MAR 29 1989

**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**

March 29, 1989

Transportation and Community Development Committee
of the Sacramento City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Housing Trust Fund - Alternative Concepts

During the public hearings on the Housing Trust Fund, it was suggested that the City should explore "creative" programs used in other communities to see what could be done in lieu of a development fee for gap financing. Two specific programs that were mentioned were the San Diego SRO (Single Room Occupancy) new construction program and the Baltimore Enterprise Fund. Pursuant to your request, the following is brief summary of each of these and a preliminary analysis of their applicability to Sacramento.

San Diego SRO Program

Over the past two years the City of San Diego has successfully worked with private developers in the construction of new SROs, allegedly with no public financing. As of October, 1988, 465 new SRO units had been built in close proximity to the downtown. An additional 1,855 purportedly were either under construction or had building permits applied for.

The program resulted in part from the recommendations of an SRO Task Force which recommended preservation and rehabilitation of SROs and the construction of new ones. (An almost identical set of recommendations was made by the City of Sacramento SRO Task Force and has been incorporated into the adopted Housing Assistance Plan, Program and Financing Strategy.)

The San Diego program includes the following components:

- o Code changes including a parking variance, permitting mechanical ventilation of courts, modifying handicapped access requirements, allowing a fire sprinkler system to be substituted for a host of various code items, allowing a minimum of 150 square feet with partial kitchen and bathroom facilities.

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- o Financial incentives that the City provided include: a reduction in water and sewer connection and capacity change rates that fairly reflect SRO usage; and low interest loans to developers to underwrite rents for very low-income affordability.

The San Diego results to date are impressive and can provide some guidance to local efforts. SHRA staff had previously discussed the program with staff of the San Diego Housing Commission and has toured several of their SROs. Subsequently, we spent an afternoon touring Sacramento with the developers of the Baltic Inn, the first of the new San Diego SROs. We are continuing our discussion with this firm on the feasibility of their entering the Sacramento market. Additionally, we are currently working with a local developer towards construction of a sixty unit SRO in downtown.

The difference in prevailing rent levels is what makes the San Diego program feasible with little public subsidy. SRO rents in San Diego are between \$50 and \$100 higher than those in Sacramento. This permits a great deal more debt financing of projects. These higher rents also make most of these units unaffordable to the very low-income persons who are the targets in Sacramento. A rent of \$180 to \$200 should be the maximum for a person on SSI earning approximately \$600 a month. A typical San Diego rent of \$300 would consume half this meager amount.

It is clear from analysis of the San Diego model, from discussion with San Diego staff and from our own local efforts that SROs which will be affordable to very low-income persons (the focus in the HAPP--Housing Assistance Plan Program) cannot be built in Sacramento without a deep public subsidy. They can not in San Diego either. In the case of the Baltic, as an example, the City is providing a 3% loan in order to achieve 20% of the units at rents affordable to very low-income persons.

Additionally, SROs provide housing for but one small segment of the population--single persons. The 1,000 unit target in the HAPP includes a wide variety of family sizes and types, most of whom could not be accomodated in SROs.

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Baltimore Enterprise Loan Fund

This very innovative program was established by the Enterprise Foundation, a non-profit organization created by James Rouse. As initially set up, individuals and Corporations agree to invest at least \$500 in the Baltimore Enterprise Loan Fund by opening up one-year certificates of deposit yielding a 3% return. All deposits are insured by the Federal Savings and Loan Insurance Corporation (FSLIC). In effect, the depositors agree to take a below market return on their investments. The first \$1.5 million collected in the loan fund was matched by a liquidity deposit from the Community Development Administration of Maryland. CDA has agreed to maintain an average balance of \$1.5 million for at least fifteen years. The initial CDA deposit received a passbook rate of 5 1/2%.

The Enterprise Foundation has agreed that if CDA withdraws funds from the account within fifteen years and there are not sufficient other funds to replace the money, Enterprise will provide any money needed to support permanent loan commitments made by the Fund.

Over the past two years, approximately 350 depositors in the State have invested over \$2 million in the program. Approximately \$1.1 million came from members of the Home Builders Association of Maryland, which took up the cause as an organization.

Funds are used for mortgages for low-income rental projects developed by non-profit organizations or for single family homes which are purchased by low income families through a program undertaken by a non-profit developer. Loans to non-profits are at 6% for a fifteen year term, amortized over twenty-five years.

This program has attracted some national interest. A form of this "benevolent lending" program has been included in the Comprehensive Housing Bill introduced into the Senate (the Cranston-D'Amato Bill).

The Chamber of Commerce, together with the BIA would appear to be the most appropriate organizations for the investigation and initiation of such a program, lining up participating banks and soliciting a sufficient volume of "benevolent loans" to make the program a viable option for the community. The key question is whether a sufficient amount can be raised annually to sustain an effective program.

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Contributions of this nature, even if annually renewed will assist, but cannot eliminate the need for additional gap subsidys. Under the model proforma developed by the Housing Finance Task Force, the amount of debt that could be supported by a very low-income person at 10% is \$15,850, leaving a gap (subsidy need) of between \$13,000 and \$18,000, depending on equity contributions. At 6%, the supportable debt would be \$21,600, still leaving a gap of between \$7,000 and \$12,000.

Summary/Conclusion

The program proposed in the HAPP is very broad in that it seeks to meet the needs of a wide spectrum of the population. There is no one simple solution.

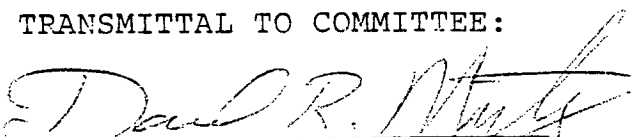
There are a great number of successful housing programs being implemented throughout the Country using a wide variety of Federal, State, local and private financing. A number of programs have been implemented by the City of Sacramento and are being used as models by others. As proposed in the Housing Assistance Plan, Program and Financing Strategy, the City should continue to aggressively pursue and explore all programs, financing mechanisms and construction mechanisms, and "import" those which appear to have local validity.

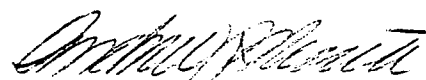
It should be kept in mind that the HAPP and its 1,000 unit per year goal focuses on very low-income persons and families; those with incomes below 50% of the area median income. Staff has found no program which can provide affordable housing for this segment of the population without a deep subsidy. Not even the cheapest SROs can meet this need without assistance. The programs, above, and others which should be explored need to be considered as supplements to, rather than substitutes for a Housing Trust Fund which can provide the needed subsidy.

For your information we have written letters to both the Building Industry Association and the Chamber of Commerce expressing interest in working with them on further explorations. (Copies attached)

Respectfully Submitted,

TRANSMITTAL TO COMMITTEE:


DAVID R. MARTINEZ
Deputy City Manager


ANDREW J. PLESCIA
Acting Executive Director

(4)

Contact Person: Lester Smith, 440-1207

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HOUSING AND REDEVELOPMENT
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March 15, 1989

Mr. Dwight Hanson
Building Industry Association
3780 Rosin Court, Suite 290
Sacramento, Ca 95834

Dear Dwight:

Despite our differences regarding the Housing Trust Fund and the means for its financing, I do appreciate your concerns and reservations. I also believe that we share a common objective --that of increasing the supply of affordable housing for the present and future low-income residents of the County. I hope we can always keep that common objective in mind.

I agree that there are a number of approaches that can and should be explored to achieve that objective and we would like to work with you to explore these. The San Diego SRO approach is just one illustration that may have merit in Sacramento.

The City Council has requested that we explore and report back on additional approaches for meeting the programmatic objectives in the adopted Housing Assistance Plan. We are anxious to do so, and would like to do this with the input of the Building Industry Association (BIA) and the Chamber of Commerce.

Lester Smith will be coordinating the investigations for this Agency. I have asked him to get together with you as soon as possible so that we can report back to the Council in a timely manner.

I look forward to a productive effort.

Sincerely,

ANDREW J. PLESCIA
Acting Executive Director

BL/tt

cc: Robie
McConnell
Orr



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Vice President
Chamber of Commerce
917 Seventh Street
Sacramento, Ca 95814

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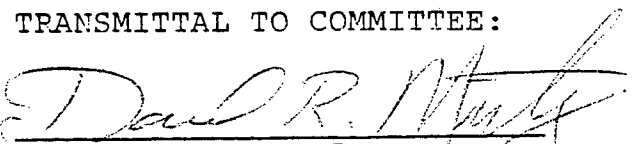
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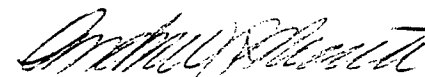
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