



May 18, 2005

City Council  
Sacramento, California

Honorable Members in Session:

SUBJECT: Federally Subsidized Affordable Housing Status Report

**LOCATION & COUNCIL DISTRICT**

All Districts

**RECOMMENDATION**

This report is for informational purposes only and no action is required.

**CONTACT PERSONS**

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**FOR COUNCIL MEETING OF** - May 31, 2005

**SUMMARY**

In September of 2004 the City Council passed an affordable housing preservation ordinance. The purpose of this ordinance is two fold: 1) to ensure owners of federally subsidized multifamily rental housing projects provide notice to Sacramento Housing



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and Agency (Agency) regarding whether they plan to terminate their federal subsidies and convert their project to market rate; and 2) to ensure that notice is transmitted from the Agency to a pre-qualified group of affordable housing developers to give them the opportunity to preserve the project's affordability.

Current federal policy allows owners of federally subsidized projects to terminate affordability restrictions under certain circumstances. Once a project is relieved of its affordability restrictions, an owner is allowed to convert the project to market rate. Since the mid-1990's, the Agency has tracked the effect of these policies on the City's federally subsidized multifamily housing stock and worked proactively to preserve projects at-risk of converting to market rate. The Agency's preservation efforts have been demonstrated through its provision of gap financing and issuance of tax exempt mortgage revenue bonds to developers willing to purchase, rehabilitate, and operate projects as affordable housing. More recently, the Agency has placed additional focus on adopting policies aimed at furthering the preservation effort. The passage of the City's Housing Preservation Ordinance and the adoption of new policies regarding Section 8 renewals demonstrate the Agency's commitment to preservation. The purpose of this report is to update the Council on the status of the City's preservation efforts.

### **BACKGROUND**

Most of the existing federally subsidized multifamily housing stock is subsidized by a Federal Home Loan Administration (FHA) insured mortgage as well as a project-based Section 8 contract funded directly by the U.S. Department and Urban Development (HUD), not by the local Housing Authority. Since the early 1990s, owners of these projects have had the right to prepay their Federal Home Loan Administration (FHA) insured mortgages and are not required to renew the Section 8 contract upon expiration. In addition, in 2001 the compliance period for the initial set of 9% Low Income Housing Tax Credit financed projects began to expire. These circumstances have provided opportunities for owners of federally subsidized projects to terminate their financial relationships with the federal government and in so doing terminate the rent restrictions.

With all regulatory restrictions removed, owners have the ability to convert their properties to market rate rentals. In practice, some owners have proceeded to terminate their subsidies converting their projects to market rate, others have chosen to continue to operate their projects as affordable housing by renewing their Section 8 contracts with HUD, and others have sold their projects to affordable housing developers. This report will identify the projects that have been converted to market

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rate, the number of projects at risk of converting to market rate, and the number of units that have been sold and preserved as affordable housing.

In the mid-1990's the first group of federally subsidized projects with 20-year project-based Section 8 contracts expired and became eligible to convert to market rate. Since this time, the Agency has worked to preserve at-risk projects by providing gap financing and issuing tax-exempt mortgage revenue bonds to developers willing to acquire such properties and retain the affordability restrictions. In addition, in an effort to preserve this at-risk housing stock, in September of 2004 the Council passed a Housing Preservation Ordinance adding Chapter 5.148 to Title 5 of the City Code so that the Agency would also receive prior notice of the contract termination. The purpose of this report is to explore the impacts the current regulatory environment has had on the City's federally subsidized housing stock and to report on the status of the Agency's efforts to preserve it. More specifically this report will identify:

- formerly federally subsidized housing projects that have lost their affordability restrictions;
- federally subsidized projects at-risk of market rate conversion over the next four years;
- federally subsidized housing projects the Agency has preserved; and
- the status of the implementation of the City's Housing Preservation Ordinance and the status of other preservation policies

### Loss of Federally Subsidized Housing Stock

Between 1997 and 2005 seven projects, containing 279 rent restricted units (Section 8 and/or FHA insured), lost their affordability restrictions and were converted to market rate units in the City.

For a specific list of the projects that have lost their affordability restrictions please see Attachment I.

### Federally Subsidized Housing Stock At-Risk of Conversion

The Agency maintains a list of projects that are at-risk of losing their affordability restrictions. The current list indicates which projects are at-risk of conversion prior to January 2009. The list includes all projects that have a Section 8 contract expiration date on or before December 31, 2008 or a tax credit compliance period ending on or before December 31, 2008. The list excludes those projects that are owned by non-profit entities as they are unlikely to convert to market rate.

The Agency's At-Risk list is not an indication of the number of projects that will be converted to market rate by December 2008. The list is merely an indication of the

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number of projects potentially at-risk of conversion within the City. The Agency's at-risk list includes:

- seventeen projects, containing 841 rent restricted units (Section 8 and/or FHA insured), are at-risk of losing their affordability restrictions and being converted to market rate developments before December 2008.

For a specific list of the projects that are at-risk of losing their affordability restrictions please see Attachment II. Please note that Mercy Housing California (Mercy) is in contract to purchase both Broadway Seniors Center Apartments and Casa De Angelo Apartments. These two projects account for 219 of the 821 rent restricted at-risk units. Mercy plans to operate both projects as affordable housing and intends to maintain each project's existing Section 8 contract.

### Preservation Efforts

In conjunction with the Agency's efforts to track the loss of the federally subsidized housing stock and identify projects potentially at-risk of losing their affordability, the Agency has worked proactively to preserve the at-risk projects in the City. The Agency has developed a two pronged approach to accomplish this goal:

- provide gap financing and tax-exempt mortgage revenue bonds; and
- oversee compliance with the City Housing Preservation Ordinance's termination noticing requirement and provide such information to non-profit developers.

### Gap Financing

Since the mid-1990's the Agency has provided gap financing and has issued tax-exempt mortgage revenue bonds to developers who preserve at-risk projects in the City. The Agency's federal HOME funding and other revenue sources have been combined with other programs such as 9% tax credits, 4% tax credits, and funding from the Department of Housing and Community Development's (HCD) to make the preservation projects feasible. This has proven to be an effective way for the Agency to contribute to the preservation of at-risk projects. In general:

- to date twelve projects, containing 1088 very low-income and 684 low-income units, for a total of 1,772 affordable units, have been preserved; and
- for these twelve projects the Agency has provided over \$10.2 million of gap financing and has issued over \$71.8 million of tax-exempt mortgage revenue bonds for City preservation projects.

For a list of the specific projects that have been preserved and amount of gap financing and bond financing each has received please see Attachment III.

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### **Preservation Ordinance Notification Requirements**

The Housing Preservation Ordinance requires owners of projects that have federal assistance to provide specific noticing to the Agency of their plans to terminate the project's federal subsidies. The Agency is then required to distribute this information to a pre-qualified group of affordable housing developers. The purpose of the ordinance is to inform the affordable housing community about at-risk projects so that they, in turn, can work to acquire and preserve the projects. The Agency is required by the ordinance to establish a list of qualified affordable housing developers to whom it will provide information about At-Risk projects.

In March of this year a Request for Qualifications (RFQ) for Qualified Affordable Housing Developers was solicited and seven responses received. Within the next month the Agency will determine which applicants meet the minimum requirements of the RFQ and will create the list of Qualified Entities. After the list has been established, notices will be sent to those Entities once the Agency has received notice from owners terminating federal subsidies.

In an effort to inform those affected by the ordinance, the Agency has conducted outreach to the owners and management agents of the affected federally subsidized projects. Prior to and after the adoption of the Preservation Ordinance, the Agency sent notification letters to all affected owners and management agents. To further outreach to those affected by the ordinance, in April 2005, the Agency met with the local Sacramento HUD office to discuss the ordinance and its implementation. As a result of the discussions, the Agency was invited to attend HUD's Sacramento Multifamily Industry Meeting in June of this year. At the meeting the Agency will give a formal presentation regarding the City's Preservation Ordinance.

### **Other Preservation Efforts**

The Council recently approved new guidelines for the Agency's Multi-Family Housing Lending Program and Multifamily Mortgage Revenue Bond Program. A new preservation provision was added to both sets of guidelines. The provision states that purchasers of federally subsidized developments with expiring project-based Section 8 assistance from HUD shall continue to renew project-based assistance unless the Agency approves a modification. This provision will ensure the extended life of existing project-based Section 8 contracts in projects the Agency subsidizes.

### **FINANCIAL CONSIDERATIONS**

There are no financial considerations associated with this report.

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**POLICY CONSIDERATIONS**

This report is for informational purposes only. The report does not purpose any actions.

**ENVIRONMENTAL REVIEW**

This report is for informational purposes only. The report does not purpose any actions. Accordingly neither CEQA nor NEPA apply.

**M/WBE CONSIDERATIONS**

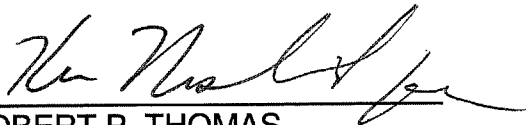
The items discussed in this report have no M/WBE impact; therefore, M/WBE considerations do not apply.

Respectfully submitted,



ANNE M. MOORE  
Executive Director

Transmittal approved,



ROBERT P. THOMAS  
City Manager

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**Federally Subsidized Projects that have Terminated Affordability Restrictions  
In the City of Sacramento**

Project	Address	Federal Insurance		Section 8		Assisted Total	Date of Termination
		Prepayment	Termination	Termination	Termination		
17th- V Street Apartments	1708 V Street			X		16	16 1999
Broadway Garden Apartments	3018 53rd Street			X		4	16 2001
College Gardens Apartments	7761 College Town Drive	X		X		39	100 2004
Discovery Park I, II, and III Apartments	2025-2 W El Camino Avenue			X		103	668 1998
Piedmont Arms Apartments	2556 27th St #60	X		X		14	14 1998
Washington Square I Apartments	813/815 E Street	X		X		52	52 1998
Washington Square II Apartments	2807 H Street	X		X		51	51 1999
<b>Total</b>						<b>279</b>	<b>917</b>



## Federally Subsidized Projects At-Risk of Terminating Affordability Restrictions In the City of Sacramento

Property	Address	Assisted	Total	Expiration
2301 C Street Apartments	2301 C Street	16	16	2005
Broadway Seniors Center Apartments (1)	5200 Broadway	119	120	2005
Casa De Angelo Apartments (2)	3151 Notre Dame Drive	100	100	2005
Discovery Park Apartments aka Tamaron Ranch	2055 W El Camino Avenue	32	49	2005
Eastern Gardens Co-Op	3045 Eastern Avenue	80	112	2006
Gloria Drive Apartments	7201 Gloria Drive	32	32	2006
Grand Ave Villa Apartments	3740 May Street	18	18	2006
Leisure Manor Apartments	2901 El Camino Avenue	100	100	2005
Midtown Apartments	700 12th Street	20	20	2005
Normandy Arms Apartments	1327 E Street	20	20	2008
Park Florin Apartments	6195 66th Avenue	72	72	2005
Parkview Apartments	7252 Munson Way	97	97	2005
Ridgewood Apartments	5412 47th Avenue	41	41	2005
Sherwood Court Apartments	1218 D Street	14	14	2008
Southcrest Apartments	7390 24Th Street	30	30	2006
Victoria Apartments	1307 F Street	10	83	2005
Washington Square III Apartments	410 10Th Street	40	40	2005
		841	964	

(1) Please note that Mercy Housing of California is currently under contract to purchase this building and intends to preserve its affordability.

(2) Please note that Mercy Housing of California is currently under contract to purchase this building and intends to preserve its affordability.

\* List generated from HUD Real Estate Management System excluding projects with Section 8 contracts that expire after 1/1/09 and/or are owned by nonprofit entities

\*\* Although Countrywood Village has one remaining project-based Section 8 contract covering 68 of the units, the project's affordability has already been preserved utilizing mortgage revenue bonds and 4% tax credits. Please see the Attachment III for more details.

\*\*\* Please note that every owner has the right to renew his/her Section 8 contract upon its expiration. Most owners choose to renew their contracts, some owners do not.

**Formerly At-Risk Projects the Agency has Helped to Preserve  
In the City of Sacramento**

Project	Address	Very Low Income		Market/Manager Units	Agency Loan	Bond Issuance	Preserved as Affordable Housing
		Units	Income				
American River Gardens AKA River Garden Estates	2223 Northview Drive	97	26		\$ 1,435,478.00		Although the FHA mortgage was prepaid and the Section 8 contract was terminated, the project was preserved in 1997 utilizing 9% tax credits and a Agency loan.
College Gardens Two Aka The Villas at La Riviera Apartments	7901 La Riviera Drive	40		159	\$ -	\$ 8,850,000	Although the FHA mortgage was prepaid and it did not have any Section 8, the project was partially preserved in 1998 utilizing 501 (c)(3) bonds.
Countrywood Village	5500 Mack Rd	88	204		\$ -	\$11,460,000	The two Countrywood Village contracts applied to one property. One contract was terminated in 1999, the other remains. In 2000, the Project was preserved as affordable housing utilizing MRB and 4% tax credits.
Florin Meadows I & II	7301 29th St	38	147	59	\$ 1,200,000	\$ 10,000,000	Although the FHA mortgage was prepaid, Section 8 contract was maintained and the Project was refinanced in 2001 and preserved as an affordable housing project with MRB, 4% tax credits and an Agency loan.
Greenfair	701 Fairgrounds Dr	386			\$ 1,000,000	\$ 12,600,000	Although the FHA mortgage was prepaid, the Section 8 was maintained and the project was preserved as an affordable housing project in 2002 utilizing MRB, 4% tax credits, and an Agency loan.
Kennedy Estates AKA Ralph Kennedy Estates	6531 Elder Creek Road	98		2	\$ 950,000		Although the FHA mortgage insurance was prepaid and the Section 8 contract was terminated, the project was preserved as affordable housing utilizing the 9% tax credit program in conjunction with an Agency loan.
Lance Apartments	4828 El Camino Ave		74		\$ 840,000		Although the FHA mortgage was prepaid and the Section 8 contract was terminated, the project was preserved in 1995 as affordable housing with an Agency loan.
Meadowview Riviera AKA Whispering Pines	1454 Meadowview Rd	94		2	\$ 790,000		Although the FHA mortgage was prepaid, the Section 8 contract was maintained and the Project was refinanced in 2001 with 9% tax credits and an Agency loan and is operated as a low income housing project.
Northland Village*	3730 Modell Way	93	50	1	\$ -	\$ 17,000,000	The site was recently purchased by an affordable housing developer and the Section 8 contract was maintained. In 2005 the project will submit applications to obtain MRB bonds and 4% tax credits.
Ping Yuen	915 4th St	17	64		\$ 3,000,000	\$ 3,180,000	Although the FHA mortgage was prepaid and the Section 8 contract was terminated the project was preserved as affordable housing in 2003 utilizing MRB bonds, 4% tax credits, and an Agency loan.
Sun Garden Plaza Apt	6248 Lemon Hill Ave	30	119		\$ -	\$3,400,000	Although the FHA mortgage was prepaid and the Section 8 contract was terminated the project was preserved as affordable housing in 1998 utilizing MRB bonds and 4% tax credits.
Willow Tree Apartments AKA Norwood Arms*	4300 Norwood Ave.	107		1	\$ 1,000,000	\$ 5,310,000	Although the FHA mortgage was prepaid, the Section 8 contract was maintained. In 2005 the project submitted applications to obtain MRB bonds and 4% tax credits. The project has already received a commitment for Agency loan funds.
<b>Total</b>		<b>1088</b>	<b>684</b>	<b>224</b>	<b>\$ 10,215,478</b>	<b>\$ 71,800,000</b>	

\* The bond allocation has not been approved by the California Debt Limit Allocation Committee (CDLAC) but local approvals have been obtained for the bond issuance.

\*\*Please note that a number of projects have been preserved by the federal government through the U.S. Department of Housing and Urban Development. These projects include Camelot North (20 units), Camelet South (20 units), 2517 C Street (16 units), 2410 C

\*\*\* Please note that a number of projects have been preserved without any Agency or federal assistance. These projects include Consummum River Apartments (84 units), Foothill Plaza Apartments (76 units), Cascade Apartments (60 units).