

RESOLUTION NO. 93-005

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO

ON DATE OF FEB 9 1993


HOUSING TRUST FUND: RENTAL HOUSING NEW CONSTRUCTION GUIDELINES

BE IT RESOLVED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO:

Section 1: The Rental Housing New Construction Program Guidelines, attached as Attachment IV, are approved.


CHAIR

ATTEST


SECRETARY

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: 93-005
DATE ADOPTED: FEB 9 1993

RENTAL HOUSING NEW CONSTRUCTION PROGRAM GUIDELINES

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SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY
COMMUNITY DEVELOPMENT DEPARTMENT

Housing Development & Preservation Division

488 I Street / RH-13

Sacramento, CA 95814

RENTAL HOUSING NEW CONSTRUCTION PROGRAM GUIDELINES

FOR THE

CITY AND COUNTY OF SACRAMENTO

January - 1993

RENTAL HOUSING NEW CONSTRUCTION PROGRAM GUIDELINES
FOR THE CITY AND COUNTY OF SACRAMENTO

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**RENTAL HOUSING NEW CONSTRUCTION PROGRAM GUIDELINES
FOR THE CITY AND COUNTY OF SACRAMENTO**

GENERAL PROVISIONS

Introduction

The Sacramento Housing and Redevelopment Agency (Agency) administers several funding programs which provide financial assistance for the construction of new rental housing development. The purpose of these guidelines is to establish a consistent set of procedures, underwriting standards and requirements for these several funding programs. Unless otherwise specified in the funding programs description, these guidelines shall be incorporated by reference in these program descriptions. These new construction guidelines are intended to be a companion to the adopted Rental Housing Rehabilitation Program Guidelines.

In the event these guidelines conflict with provisions of state and/or federal programs, which may be used in conjunction with Agency funds, the most restrictive provisions shall apply.

Applicability

Unless otherwise specified, these guidelines shall be applicable to all new rental housing construction funding programs established by the following local governmental entities:

- ♦ The City Council of the City of Sacramento
- ♦ The Redevelopment Agency of the City of Sacramento
- ♦ The Housing Authority of the City of Sacramento
- ♦ The Board of Supervisors of the County of Sacramento
- ♦ The Redevelopment Agency of the County of Sacramento
- ♦ The Housing Authority of the County of Sacramento

The guidelines shall be applicable to any housing development intended for rental purposes and shall include:

- ♦ single- and multi-family developments;
- ♦ residential hotels; and
- ♦ mobile home parks.

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Types of Loans

Project financing may be provided through the following types of loans:

- ♦ project-based predevelopment expenses;
- ♦ interim construction financing; and
- ♦ long term, permanent financing.

Definitions

Affordable rental housing - A rental housing unit for which the total cost (contract rent plus utility allowance) to the occupant does not exceed the following:

- ▶ for low-income households - 30 percent of 60 percent of the median income of the Sacramento Metropolitan Area, adjusted for family size.
- ▶ for very low-income households - 30 percent of 50 percent of the median-income of the Sacramento Metropolitan Area, adjusted for family size.

Agency - The Sacramento Housing and Redevelopment Agency.

City - The City of Sacramento.

County - The County of Sacramento.

Executive Director - The Executive Director of the Sacramento Housing and Redevelopment Agency.

Funding Program - A program established by the governing body directing the use of locally generated funds to specific purposes (e.g., SRO construction, Central City Housing Strategy implementation).

Governing body - The Sacramento City Council or the Sacramento County Board of Supervisors, as appropriate.

Household - One or more persons occupying a housing unit.

HUD - The United States Department of Housing and Urban Development.

Large family unit - A dwelling unit containing two or more bedrooms.

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Loan Approval Committee - The Sacramento Housing and Redevelopment Agency's Loan Approval Committee.

Low-income household - A household whose income does not exceed 80 percent of the median income of the Sacramento Metropolitan Area, adjusted for family size, as established by the United States Department of Housing and Urban Development (HUD).

Moderate-income household - A household whose income does not exceed 120 percent of the median income of the Sacramento Metropolitan Area, adjusted for family size, as established by HUD.

NOFA - Notice of Funding Availability.

Regulated unit - A dwelling unit or residential hotel unit which has been financially assisted with Agency program funds and is subject to a regulatory agreement between the Agency and the sponsor.

Residential hotel - Any building containing six or more residential hotel units which are intended or designed to be used, rented, hired out or occupied, for sleeping purposes by tenants, as the primary residence of such tenants (also known as a SRO).

SHRA - The Sacramento Housing and Redevelopment Agency.

SRO - Single Room Occupancy [aka: a residential hotel].

Very low-income - A household whose income does not exceed 50% of the median income of the Sacramento Metropolitan Area, adjusted for family size, as established by HUD.

ADMINISTRATION

Governance

Unless otherwise specified by the governing body, the construction of all new rental housing development assisted with Agency funds will be governed by these program guidelines.

Sacramento Housing and Redevelopment Agency (SHRA) Responsibility

- ◆ SHRA is delegated responsibility for administration of these guidelines.
- ◆ Staff will evaluate proposals for funding and shall prepare recommendations to the Loan Approval Committee.
- ◆ Upon approval by the Loan Approval Committee, the Executive Director shall have the authority to prepare and execute contracts and to approve amendments which are in compliance with the terms of the approved loan, these guidelines, and the objectives of the underlying funding program.
- ◆ The Executive Director shall monitor construction and the disbursement of funds during construction.
- ◆ The Executive Director shall establish procedures for monitoring the project for compliance with the loan documents and regulatory agreement during the applicable operational period.

Loan Approval Committee

The Loan Approval Committee and the Sacramento Housing and Redevelopment Commission (SHRC), to the extent of their respective authorities, shall be delegated responsibility for reviewing proposals received in accordance with these guidelines and for approving loans consistent with these guidelines. The Loan Approval Committee or Commission may waive or modify elements of these guidelines upon a finding that such waiver or modification is necessary for project feasibility and is consistent with the intent of the funding program.

NOFAs

Unless otherwise approved by the governing board, all loan requests submitted to the Loan Approval Committee for action shall be obtained through competitive NOFA processes authorized by the governing body. In reaching a decision, the Loan Approval Committee shall be governed by these program guidelines and the specific funding program criteria established in the particular NOFA.

Alternative Award Procedures

The Executive Director may recommend funding for projects or programs not obtained through the NOFA process in response to unique opportunities. Such projects or programs shall require approval by the governing body.

Community Review

Proposals for new construction projects within redevelopment or Community Development Block Grant (CDBG) target areas shall be submitted to the appropriate area or advisory committee for review and comment before consideration by the Loan Approval Committee.

BASIC REQUIREMENTS

Eligible projects

Projects to be considered for funding through these guidelines shall meet the program objectives of individual NOFAs or other programs authorized by the governing body.

Eligible Applicants

Subject to the requirements of individual NOFAs, eligible applicants shall include other governmental agencies, non-profit organizations, private individuals, partnerships, or corporations.

At the time of application, the sponsor must demonstrate ability and experience relevant to developing, constructing, owning, and managing the proposed rental project. This experience may be obtained through the sponsor's own staff or qualified consultants.

Site Control

At the time of application for assistance the sponsor must demonstrate site control over the subject property. This can be evidenced by fee simple title, a contract for sale, an irrevocable option to purchase, a leasehold interest in the property, or a disposition and development agreement.

Zoning and General Plan Consistency

At the time of application, the sponsor must demonstrate that the property is appropriately zoned for the proposed use and that the proposed use meets all development standards regulating land development. This requirement does not include ministerial actions such as development plan review, design review or "R" review.

Environmental Requirements

Prior to approval of funding by the Loan Approval Committee, the project must have complied with all requirements for environmental review under California Environmental Quality Act (CEQA).

Locational Standards

Subject to program requirements of individual NOFAs, priority will be given to projects which:

- ♦ are consistent with the adopted Fair Share Plan;
- ♦ will further the adopted inclusionary policies and promote mixed-use and mixed-income projects;
- ♦ will implement and are supportive of neighborhood revitalization programs; and
- ♦ are convenient to public transportation, neighborhood shopping facilities, schools, etc.

APPLICATION INFORMATION

Applicants for funding through these program guidelines shall submit an application to include the following:

1. Sponsor and Development Team information including:
 - ♦ Legal status of the sponsor
 - ♦ Sponsor's financial information
 - ♦ Proposed development team
 - ♦ Experience in developing and managing rental properties
 - ♦ Examples of projects developed and/or owned

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2. Site information including:
 - ◆ Location and size of parcel
 - ◆ Evidence of site control
 - ◆ Evidence of appropriate zoning
3. Project information including:
 - ◆ Narrative description
 - ◆ Preliminary plans (site plans, typical floor plans, architectural elevations)
 - ◆ Preliminary estimate of costs
4. Proposed sources of funds including:
 - ◆ Construction financing
 - ◆ Permanent financing
 - ◆ Equity participation
 - ◆ Requested amount from Agency
5. Twenty-year projected operating proforma
6. Preliminary management plan
7. Development timetable

UNDERWRITING STANDARDS

Appraisal

An appraisal may be required for all projects proposed for Agency financing. In establishing the value of the project, the appraiser shall be instructed to consider the value of below-market rate financing, federal tax credits, if applicable, and the long-term use restrictions imposed by regulatory agreements, if any.

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Loan Amounts

The Rental Housing New Construction Program is designed to provide local funding to supplement funds available from state, federal and private sources. Agency funds will need to be leveraged with other monies to achieve a reasonable number of units. Applicants are expected to provide an equity contribution and obtain maximum conventional debt financing, as well as to aggressively seek out funding from other private and public sources. The applicant must demonstrate that a reasonable effort has been made to seek additional financing and that all other possible sources of financing have been exhausted. Priority will be given to proposals which leverage the greatest amount of other financing.

Loan-to-Value Ratio

Total encumbrances cannot exceed 90 percent of value upon completion.

Eligible Project Costs

- ♦ Agency new construction loan funds may be used for any cost customary and reasonable to the development of housing projects, including but not limited to land or property acquisition, construction costs, development fees and professional services, financing costs, rent-up costs and operating reserves.
- ♦ If any eligible cost appears excessive, documentation, including an appraisal, may be required and the Agency reserves the right to disallow costs that are excessive.
- ♦ In the case of a mixed-use development, Agency funds can be used for residential development only.
- ♦ In the case of a mixed-income development, to be covered by a regulatory agreement, Agency funds can be used for that proportion of development costs attributable to regulated units, unless authorized by the particular funding program.

Developer Fee

A sponsor may include a reasonable developer fee as part of the development budget. Normally, this would be in the range of 5 percent to 10 percent of total development cost. The developer fee shall include overhead, administrative expenses and profit. The amount of the developer fee will be conditioned by:

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- ♦ contingency requirements
- ♦ reserve requirements
- ♦ required guarantees, if syndicated
- ♦ administrative and overhead costs
- ♦ use of consultants
- ♦ assessment of the amount of risk, time and effort to get the project initiated and completed and
- ♦ size of the project

The sponsor will be required to document the need for a developer fee in excess of 10 percent of the total development cost of the project.

Non-profit organizations may receive a portion of their development fee during construction to meet overhead and administrative expenses during this period.

Equity Requirements

The sponsor shall be required to make an equity contribution commensurate with the benefits to be derived, considering cash flow, tax benefits and appreciation. Normally, an 8 percent return on cash invested will be considered appropriate if the project is not syndicated for tax credits. The minimum equity requirement is 10 percent of project costs, of which no less than one-half must be in cash at the close of escrow on the Agency's loan. If the project receives a tax credit allocation, the net proceeds which remain in the project shall be counted towards this requirement.

Appreciated Land Value

Land appreciation - In calculating costs for Agency loan purposes, the developer shall be allowed to include the initial acquisition cost, reasonable holding costs, and site development costs, both hard and soft, not to exceed the fair-market value of the property.

Syndication Proceeds

If the project is syndicated for tax credit purposes, at least 75 percent of net proceeds after syndication costs must be applied toward project costs.

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FINANCING TERMS AND CONDITIONS

Loan Term

Unless otherwise specified, rental new construction loans will have a loan term with a minimum of 30 years for projects subject to a regulatory agreement. The loan terms may be extended to coincide with an extended regulatory term.

Interest Rate

All loans shall bear an interest rate of 3 percent.

Loan Repayment

All loans shall be amortized, however, principle and/or interest may be fully or partially deferred in any year to the extent necessary to maintain the fiscal viability of the project. If necessary, a residual-receipts approach may be approved with partial payment of interest following payment of operational expenses, superior debt funding, required reserves and an 8 percent preferred return to the sponsor on equity invested (exclusive of syndication proceeds from the sale of tax credits).

Affordability Requirements

All housing units assisted with Agency funds must meet the affordability standards established for the funding program providing the assistance.

Regulatory Agreement

For units subject to affordability requirements, a regulatory agreement will be recorded against the property. The agreement shall govern tenant income eligibility, allowable rents, project operations, and property management. The regulatory agreement shall be for a period at least equal to the term of the loan. The regulatory agreement shall include reporting requirements to insure income and rent requirements are satisfied.

Security

Security shall be secured by a Deed of Trust with an assignment of rents recorded against the subject property.

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The Agency's loan may be in a subordinate position to loans from conventional or other public sources.

Subordination of Agency Loan

The Loan Approval Committee may approve subordination of the Agency loan to that of a first and/or subsequent lienholder as long as the total of all liens, including the Agency's, does not exceed 90 percent of the appraised value of the property.

Loan Assignment

All loans shall become due and payable upon the transfer or sale of the borrower's interest in the property. Subject, however, to approval of the Loan Approval Committee, loans may be assumed by a qualified purchaser. In evaluating assumption requests, the Loan Approval Committee shall consider:

- ♦ the experience and capacity of the purchaser;
- ♦ adherence to initial underwriting requirements;
- ♦ commitment to affordability of the units per the regulatory agreement;
- ♦ the proposed management plan; and
- ♦ the proposed proforma.

Refinancing of Superior Loan

The Loan Approval Committee may approve refinancing of a superior loan. Total refinanced debt shall not exceed 90 percent of appraised value. The Loan Approval Committee may approve a refinancing in which the owner is able to retain an amount greater than the initial equity, if funds are used to improve the property. Any additional funds beyond that must be used first to pay off the Agency loan. Upon refinancing, the project must:

- ♦ be capable of meeting affordability requirements;
- ♦ meet initial underwriting requirements; and
- ♦ meet debt service requirements of the Agency loan.

CONSTRUCTION LOAN MANAGEMENT

Legal Documents

All recipients of loans subject to these program guidelines shall execute the following documents:

- a) Promissory Note
- b) Deed of Trust
- c) Regulatory Agreement for projects with rent restrictions
- d) Owner Participation Agreement (OPA) for projects funded with redevelopment area tax increment funds

Disbursement of Funds

All loan proceeds disbursed to Developer shall be considered advances under the Note and secured by the Deed of Trust.

Conditions Precedent: Agency shall not be obligated to make any disbursement of Loan Proceeds unless and until all of the conditions precedent to construction have been met and where:

- a) Agency has inspected the construction and all changes in the construction, and found them to be in compliance with the provisions of the Loan and Plans;
- b) Developer is not in default of any provision of the loan; and
- c) Funding is sufficient to complete the construction remains in the disbursement account and in the proceeds of any additional loan for the Project.

Bonding Requirements

Payment and Performance Bond: If the cost of construction is \$100,000, or more, as determined by the Agency, Developer shall obtain from the Contractor a performance bond and a labor and materials payment bond in favor of the Agency as a named obligee, in American Institute of Architects Form A311, or in equivalent form or security approved by Agency, securing faithful performance of the terms of the Contract in a penal sum equivalent to the cost of construction as approved by Agency and securing payment of all labor and material suppliers and subcontractors for the work of this Agreement.

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Developer shall comply with all requirements of the surety. Developer shall make no changes in the work of construction and shall make no advance payments to Contractor without prior written notice to each surety and the Agency.

Insurance

Required Insurance: During the life of the construction contract, General Contractor and any or all subcontractors shall carry and maintain the following insurance:

- a) Workers' Compensation Insurance in accordance with the laws of the state.
- b) Broad Form Public Liability Insurance for bodily injury or death, in the minimum amount of \$1,000,000 for each accident which may result from operation under this Contract.
- c) Broad Form Property Damage Insurance in an amount not less than \$1,000,000.

An original certificate of such insurance shall be filed with Borrower. Said certificate shall evidence coverage through the life of Construction Contract and shall name Borrower and Agency as loss payees.

Prevailing Wage Requirements

If state or federal funds are the source of Agency financing, the applicable prevailing wage requirements shall be met. There are no prevailing wage requirements for funds which are locally derived.

M/WBE Requirements

All developments assisted with Agency funds shall be required to adhere to the Minority Business Enterprise/Women's Business Enterprise program guidelines established by the Agency. To the extent feasible, applicants will be asked to hire from high density unemployment areas.

PROPERTY MANAGEMENT

Management

The project sponsor must submit for approval a management plan with sufficient information to allow for evaluation of the manner in which the borrower's obligation under the loan program will be met. The management plan should, at a minimum, include the following:

- a) The respective roles and responsibilities of the owner and the management agent, if any.
- b) Specific plans for affirmative action marketing and achieving occupancy by targeted populations.
- c) Procedures to be used in selection of tenants, collecting and verifying information submitted and determining low-income tenant eligibility.
- d) Plans for maintenance and repair.
- e) Staffing patterns and responsibilities.
- f) Procedures for responding to tenant problems.
- g) Rent collection policies and procedures.
- h) Eviction procedures.
- i) Reporting process for the regulatory agreement.

APPLICATION REVIEW CRITERIA

Subject to the requirements of individual program funding NOFAs, proposals for Agency funding shall be evaluated against the following criteria:

1. Experience and financial strength of the sponsoring individual or organization.
2. References and past Agency, City and County, experiences with the developer.
3. Experience of the development Team members in planning, financing, constructing, and subsequently managing rental housing developments, including quality of previous work.

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4. Design quality of the project and compatibility with the neighborhood.
5. Proposed project amenities.
6. Realistic and reasonable development budget including land acquisition, predevelopment expenses, hard construction costs, and a developer fee.
7. Marketability of units.
8. Strength of other financial commitments.
9. Amount of local funds requested per unit. The proposed project must make maximum use of other public and private resources.
10. Long-term financial feasibility.
11. Desirability of project location including:
 - a. integration of surrounding neighborhood; and
 - b. consistency with Fair Share Plan.
12. Specific program funding goals and criteria.
13. Development timetable.
14. Developer commitment to the project as evidenced by cash invested, required rate or return, development fees and commission, and tax implications.
15. Affordability of units to low- and very low-income households.
16. Demonstrated willingness and commitment to hire from high density unemployment areas (HDUA).

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