

RESOLUTION NO. 2000-005

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF FEB 8 2000

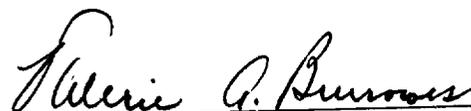
ADOPTION OF REPLACEMENT HOUSING PLAN  
FOR LEXINGTON APARTMENTS  
2401 AND 2441 LEXINGTON STREET

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF  
SACRAMENTO:

Section 1. The Redevelopment Agency of the City of Sacramento approves and adopts pursuant to California Health and Safety Code Section 33413.5 the attached replacement housing plan for the Lexington Apartments.

  
CHAIR

ATTEST:

  
SECRETARY

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# REPLACEMENT HOUSING PLAN FOR THE LEXINGTON APARTMENTS

Adopted February 8, 2000

ATTACHMENT I

## Description of Property: Lexington Apartments

Lexington Apartments  
2401 and 2441 Lexington Street & 2430 and 2440 Green Street  
Sacramento, CA 95815

North Sacramento Redevelopment Area  
APN 277-0022-008

67 units: 32 one-bedroom @ 750 sq. ft.  
35 two-bedroom @ 850 sq. ft.

## Responsibilities of Redevelopment Agencies

California statutes require redevelopment agencies to replace low and moderate-income housing lost to residential use if that action involved either a development agreement or financing by the agency. The specific provision of the California Health and Safety Code (Sec. 33413) is as follows:

“Whenever dwelling units housing persons and families of low or moderate income are destroyed or removed from the low- and moderate-income housing market as part of redevelopment project which is subject to a written agreement with the agency or where financial assistance has been provided by the agency, the agency shall, within four years of the destruction or removal, rehabilitate, develop, or construct, or cause to be rehabilitated, developed, or constructed, for rental or sale to persons and families of low or moderate income, an equal number of replacement dwelling units which have an equal or greater number of bedrooms as those destroyed or removed units at affordable housing costs within the territorial jurisdiction of the agency. When dwelling units are destroyed or removed after September 1, 1989, 75 percent of the replacement dwelling units shall replace dwelling units available at affordable housing cost in the same income level of very low income households, lower income households, and persons and families of low and moderate income, as the persons displaced from those destroyed or removed units.”

## Lexington Apartment: History of Involvement

In 1997, the Sacramento Housing and Redevelopment Agency (SHRA) awarded funding to the Sacramento Valley Organizing Community (SVOC), a community-based nonprofit corporation, to investigate the feasibility of acquiring and rehabilitating deteriorated multifamily properties in the City and County of Sacramento. The funding source for the Agency's assistance was the federal Community Development Block Grant program. SVOC actively pursued the acquisition of Chateau Lang, the highest ranked problem property in the County's Nuisance Response Joint Operations program, and Lexington Apartments, one of the most frequently cited problem properties in the City of Sacramento.

In 1997, the City of Sacramento filed a permanent injunction against Coast Federal Bank, which came into ownership of the Lexington Apartments through foreclosure action taken in 1995, for failure to take the remedial actions required by the City over the previous five years. Coast Federal was subsequently purchased by Home Savings Bank, which in turn was purchased by Washington Mutual Savings Bank. During this time, the property, which was vacant, deteriorated further.

In its due diligence prior to property acquisition, SVOC determined that rehabilitation of the property was not economically feasible due to its functional obsolescence and noncompliance with various provisions of

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the city's building codes. They proposed demolition and reconstruction, with alternatives on future use to be recommended by the Dixieanne Area Neighborhood Association (DANA). The neighborhood organization supported high quality housing with a community or childcare center, and overall supported an increase in owner-occupied housing in the area. DANA further emphasized their support of a replacement-housing plan that would minimize the creation of additional multifamily housing in the neighborhood, which has had numerous problem rental properties. SHRA is committed to working with DANA on specific proposals for the reuse of the Lexington site and other replacement housing projects. The North Sacramento Redevelopment Advisory Committee recommended either single-family housing or commercial uses for the Lexington site.

The Agency's Pre-apprenticeship Construction Training Program may be able to carry out the construction of replacement housing on site. Working with multiple groups on one site creates efficiencies for the program, which can construct either detached or attached housing.

**Replacement Housing Options**

The total number of Lexington Apartment units to be demolished is 67. The total number of bedrooms in these units is 102. According to Health and Safety Code Section 33413 (f), a fewer number of replacement dwelling units may be provided if the total number of bedrooms equals or exceeds the number of bedrooms in the units removed and if the replacement units are affordable to the same income level of households as the units removed.

The Agency's priority is to replace the units within the North Sacramento Redevelopment Project Area (Map attached as Exhibit A.) Examples of different types of new housing to be constructed are illustrated below:

- **Construction of new owner-occupied housing on site**

The Agency currently funds a pre-apprenticeship construction training program to construct new ownership housing while providing young adults with construction experience. The highest probability for financial feasibility includes townhomes or multifamily structures (attached) owned and operated as a cooperative or lease-to-own development.

Family housing: 2- and 3-bedroom units  
Example: 39 units if 15 2-bedroom and 24 3-bedroom units

- **Construction of new rental housing on site**

Family housing: 2- and 3-bedroom units  
Examples: 41 units if 21 2-bedroom units and 20 3-bedroom units  
or 39 units if 15 2-bedroom and 24 3-bedroom units

Senior housing: 1- and 2-bedroom units  
Example: 50 units if 40 1-bedroom and 10 2-bedroom units  
Balance of units needed (42) to be built or acquired off-site

- **Construction of new ownership housing off site.**

The Agency has currently committed \$510,000 for the construction of 11 very low and low-income units at Calvados and Oakmont Streets within the North Sacramento Redevelopment Area. The development team includes Habitat for Humanity and Rural California Housing Corporation. Construction on these units is scheduled to begin in the summer of 2000. The units will be built using the self-help method and will be available to very low, low and moderate-income artist families.

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- **Acquisition of boarded/vacant property** requiring substantial rehabilitation not previously subsidized or regulated for affordability.

Multifamily and single-family property which is boarded/vacant and in need of substantial rehabilitation will be considered for replacement housing to meet the "balance needed" under the new construction options. Substantial rehabilitation as defined in the Health and Safety Code Section 33413 (b)(2)(A)(iv) means "rehabilitation, the value of which constitutes 25 percent of the after-rehabilitation value of the dwelling, inclusive of the land value."

Should replacement units not be able to be constructed or rehabilitated within the North Sacramento Redevelopment Area, construction alternatives similar to those presented above will be pursued outside the redevelopment area. In addition, the Agency anticipates that over the next 4 years 80 to 150 new very low and low multifamily units per year will be constructed in the City of Sacramento as part of the state's tax credit or multi-family bond allocation program. The replacement obligation is doubled (two-for-one replacement requirement) if replacement units are provided outside the redevelopment area in which the units were demolished.

**Affordability Considerations**

Because the Lexington Apartments have been vacant for many years, information is not available on the household income of the last tenants. It can be assumed, however, that the tenants were likely to have been low-income. For the purposes of determining the affordability restrictions for the replacement housing, we will assume that one half of the tenants earned less than 50 percent of the area median income (very low income) and one half earned below 80 percent of the area median income (low income). Replacement housing rents for low-income units will not exceed rents affordable to households at 60 percent of the area median income to conform to Housing Trust Fund guidelines.

Rental and cooperative housing. The following rent calculations are based on the State Department of Housing and Community Development's published 1999 income and rent affordability levels for the Sacramento area. Rents for replacement housing units will not exceed these allowances. HUD Fair Market Rents for 1999 are shown for comparison.

<u>Maximum Rents</u>	<u>1 bedroom</u>	<u>2 bedroom</u>	<u>3 bedroom</u>
	<u>(Rents less utility allowances in parentheses)</u>		
Very low-income rents:	\$486 (\$449)	\$583 (\$530)	\$675 (\$603)
Low income rents (60%)	\$583 (\$546)	\$700 (\$647)	\$810 (\$738)
HUD Fair Market Rents	\$496	\$621	\$861

(HUD Fair Market Rents for existing housing are based on the 40<sup>th</sup> income percentile)

"Affordable housing cost" for members of housing cooperatives and limited equity cooperatives is the same as the rent calculations listed above.

Ownership housing (other than cooperatives and limited equity cooperatives). Affordable housing cost for other forms of ownership housing are based on the amounts a household can afford to pay for principal, interest, taxes, insurance, and homeowner association fees (if any). For very low-income households, the maximum housing cost is based on 30 percent of 50 percent of the area median income, adjusted for household size; the maximum housing cost for low-income households (earning 51 percent to 80 percent of

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median income) is based on 30 percent of 70 percent of the area median income. These standards are included in Sections 33413 and 50052.5 of the Health and Safety Code.

Using these calculations, a four-person very low-income household could afford a three-bedroom home selling for \$60,000. (Assumptions include an 8 percent interest rate, 5 percent downpayment, and \$250 monthly in taxes and insurance.) The affordable housing cost will vary with changes in interest rates and the type of ownership housing. Should ownership housing be built or acquired to satisfy the replacement housing for Lexington Apartments, subsidies would be needed to pay the difference between reasonable development costs and the affordable housing cost standards described above. SHRA has used such financing policies for ownership housing in redevelopment areas.

Replacement housing for owner-occupants will also carry equity sharing arrangements in the event of sale which allow the seller to retain a portion of the excess proceeds of sale. SHRA has adopted an equity-sharing program, which allows for a distribution of excess proceeds based on the proportion of agency debt to the initial sales price. This existing policy would be applied to replacement housing units for owner-occupants.

Term of affordability restrictions

The term of affordability restrictions shall be for not less than the land use controls established in the North Sacramento Redevelopment Plan, or the greater of the term requirements of the financing sources used as subsidies.

Financing Plans

Production of the replacement housing will depend on a number of subsidies and/or equity investments, including but not limited to the following:

- Land write down or reduced cost, from Sacramento Housing and Redevelopment Agency funds used to purchase the property
- Below market financing through the sale of tax-exempt mortgage revenue bonds
- Project-based investment (equity) from the sale of low-income housing tax credits
- Section 8 home ownership certificates (upon the program's becoming operational)
- Downpayment assistance or mortgage credit certificates issued by SHRA for owner-occupants, including shareholders in cooperatives.
- Federal Home Loan Bank of San Francisco's grants for Individual Development Accounts to encourage savings for homeownership or for conditional grants to promote affordability

Sources of SHRA funding include local Housing Trust Fund revenues, Home Investment Partnership Program (HOME) funds, and North Sacramento redevelopment tax increment funds (housing setaside funds). All are available to house low and very low-income households.

The annual funding available for these various sources is as follows:

City of Sacramento Housing Trust Fund	\$800,000 – city-wide availability
North Natomas Housing Trust Fund	\$200,000 - available in North Sacramento Community Plan Area only)
HOME (federal entitlement)	\$3,000,000 – city-wide (dependent on appropriation)

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North Sacramento Redevelopment funds \$200,000 – redevelopment area uses; housing funds may be used outside the redevelopment area if finding of benefit made

Funding not in control of the City or redevelopment agency are Low Income Housing Tax Credits, awarded by the California Tax Credit Allocation Committee, and private activity bond allocations awarded by the California Debt Limit Allocation Committee necessary for the issuance of tax-exempt mortgage revenue bonds.

The most financially feasible alternative is a development using tax credits to generate equity investment and subordinate financing with flexible terms using local public funds. Costs are based on 39 attached 2- and 3-bedroom units with a community space of 1,200 square feet. Occupancy could be ownership (limited equity cooperative), lease-to-own, or rental. A preliminary proforma financing plan, based on costs of comparable developments, is as follows:

Acquisition and demolition	0	
Construction cost @ \$70/sf	2,772,000	Residential units 39,600 sq. ft.
Off-site costs @ \$2,000/unit	78,000	
Financing, fees, other soft costs @ \$20,000/unit	780,000	
<u>Profit, overhead, and contingencies</u>	<u>363,000</u>	
Total preliminary estimate	3,993,000	

Projected sources of permanent financing are as follows:

First mortgage (private)	900,000
Equity investment	2,440,000
Deferred development fees, grants	200,000
<u>Public subordinate debt</u>	<u>453,000</u>
Total permanent sources	3,993,000

#### Performance Schedule

Reconstruction plans will be presented to the Dixie Area Neighborhood Association. The proposed schedule is as follows:

March 2000	Demolition of apartments
June 2000	Continued discussions on replacement housing designs
August 2000	Development proposals solicited
December 2000	Agreement on development plan
June 2001	Financing applications submitted
August 2001	Preliminary plans/application to City Planning and/or Building Department
January 2002	Construction start
December 2002	Construction completion

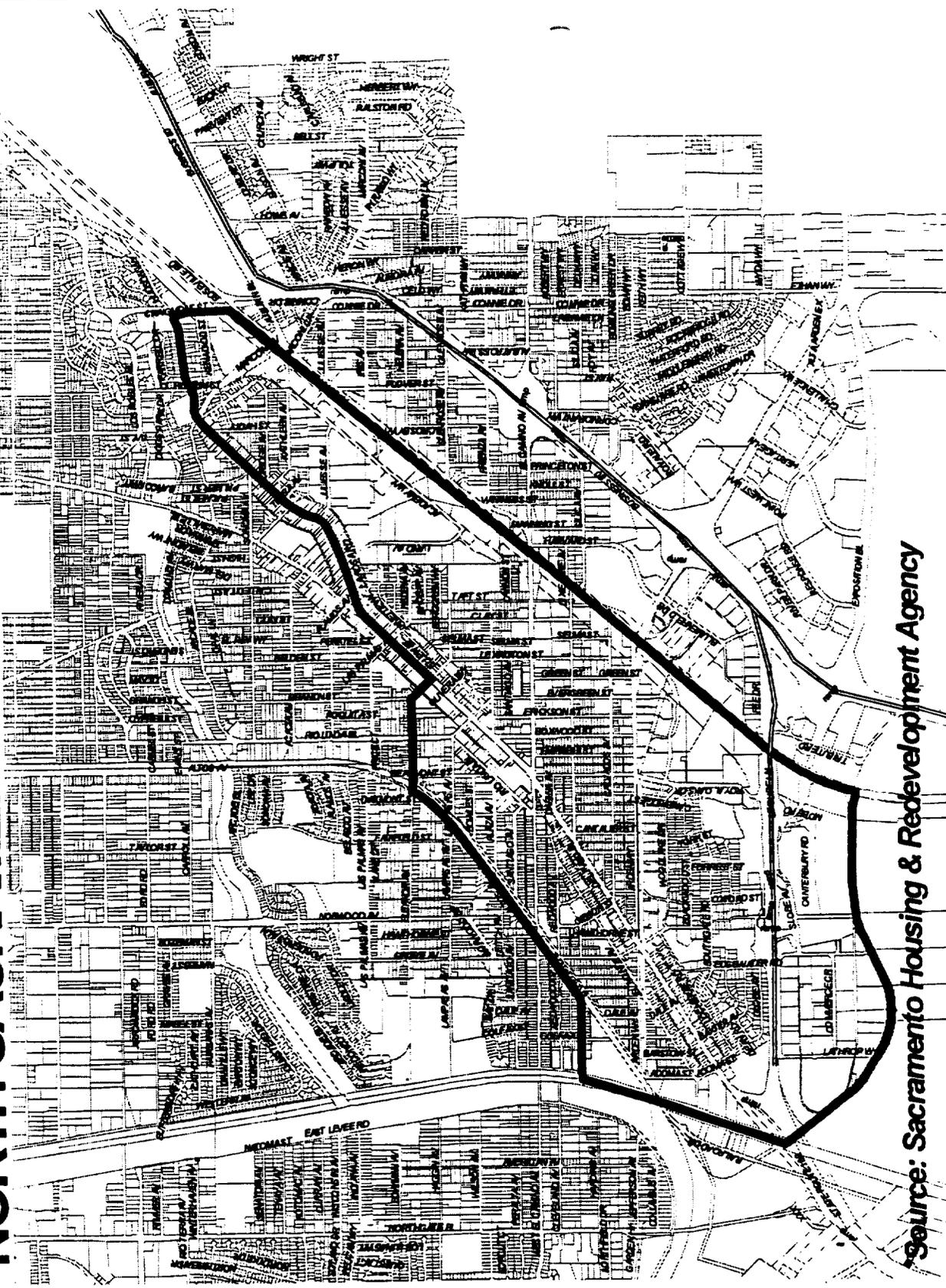
The latest date to have constructed replacement housing units is June 2003.

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# NORTH SACRAMENTO REDEVELOPMENT AREA



Source: Sacramento Housing & Redevelopment Agency

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