

REPORT TO HOUSING AUTHORITY
City of Sacramento
915 I Street, Sacramento, CA 95814
www.CityofSacramento.org

STAFF REPORT
August 16, 2005

Honorable Mayor and
Members of the Housing Authority

Subject: MODIFICATION TO PUBLIC HOUSING HOMEOWNERSHIP PROGRAM

Location/Council District: Citywide

Recommendation:

Adopt a Resolution establishing the amount of seller financing the Executive Director or her designee can provide for the sale of the Housing Authority-owned properties included in the public housing homeownership program.

Contact: Thomas V. Lee, Deputy Director, SHRA, 440-1337
Leslie Fritzsche, Senior Management Analyst, 440-1301
Presenters: Thomas V. Lee, Deputy Director, SHRA, 440-1337
Leslie Fritzsche, Senior Management Analyst, 440-1301
Department: Sacramento Housing and Redevelopment Agency (SHRA)
Division: Development Services
Organization No.: Not Applicable

Summary:

The Housing Authorities of the City and County of Sacramento have adopted a public housing homeownership program to sell part of their inventory of single family units to public housing residents, Housing Choice Voucher participants, and low-income households. The program contains two components known as the 5(h) and Section 32 programs (the names referring to the citations in the authorizing legislation). The original reports approving the programs mentioned that the Authority could provide seller "carry-back" financing to make the homes affordable to low income purchasers but did not establish a limit for the amount of carry-back financing. The proposed modification would establish the seller carry-back limits for the public housing homeownership program.

Commission Action:

At its meeting of August 3, 2005, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolutions. The votes were as follows:

AYES: Burns, Burruss, Gore, Hoag, Piatkowski, Shah, Stivers
NOES: Coriano, Fowler, Simon

ABSENT: Gale

Background Information

In 1997, the Housing Authorities of the City and County of Sacramento received the approval of HUD and the Sacramento City Council to convert to homeownership the 389 scattered single family houses owned by the housing authorities. The goal of the program was to offer homeownership opportunities to residents of public housing, Housing Choice Vouchers (HCV) participants, persons on the public housing and HCV waiting lists, and low-income persons in the community. This initial program was called the 5(h) Homeownership Program, or "Homes for Sale" program. To date, 61 houses have been sold to either public housing residents and HCV participants who were given priority to purchase the housing if they met income and rental history requirements or other low income buyers. Consistent with HUD 5(h) regulations, the Agency could not cause families in the single family homes to relocate to other public housing if they did not wish to participate in or were not eligible for the homeownership program. As a result, most of the housing authorities' homes could not be sold. Therefore in November 2004, the Agency requested HUD's approval to limit the 5(h) program to the existing 72 vacant houses, and to subsequently apply to HUD to allow up to 212 homes to be sold under HUD's Section 32 program which does allow for relocation of tenants.

Of the 72 vacant houses, 43 are owned by the Housing Authority of the City of Sacramento and 29 are owned by the County Housing Authority (see Attachment A for the location of the 5(h) homes). Of the houses proposed for the replacement Sec. 32 program, 146 are owned by the City Housing Authority and 66 by the County (see Attachments B1 and B2 for the location of the Section 32 homes). Four- and five-bedroom houses owned by the housing authorities will not be converted to homeownership; they will remain in the public housing inventory.

The 5(h) and Section 32 programs allow the housing authorities to provide seller financing to ensure the homes would be affordable to low-income buyers (household incomes cannot exceed 80 percent of the area median income), stating that the housing authorities can carry back the difference between a home's market value and an affordable price. Section 32 regulations specifically require take-back financing to prevent wind-fall profits or speculative purchasing. The approved program descriptions did not specify the maximum amount of carry-back financing allowable under the project. This report recommends establishing that limit.

With rising home prices, there is an increasing gap between the market value of the homes, as determined by an independent appraisal, and an affordable price. Based upon recently completed appraisals, the Agency estimates that the market value of the homes will range from \$250,000 to \$320,000. The affordable prices, using HUD formulas for affordability, are estimated to range from \$160,000 to \$170,000. After tapping into available programs such as the Agency's first-time homebuyer programs, the housing authorities may need to provide from \$50,000 to \$150,000 in seller financing for each home to bring the homes to a price affordable to the low-income purchasers. This financing would come in the form of a three percent interest loan secured by a deed of trust on the property and would be due in 30 years or upon the sale or refinance of the property.

Therefore, in order to make the homes affordable to low-income purchases, staff recommends that the Executive Director of the Housing Authority be allowed to provide seller financing up to 50 percent of the market price for priority buyers (defined under the project as public housing residents, HCV participants, and participants in the housing authorities' Family Self-Sufficiency Program) and up to 35 percent for other low-income buyers. This higher limit for the priority buyers is necessary because of the lower income levels of the priority buyers, and to further increase the chances that the Housing Authority can make the dream of homeownership a reality for the targeted market HUD originally envisioned as beneficiaries under these programs.

Financial Considerations:

Funding for the 5(h) and Sec. 32 programs was approved in the previous reports. This report does not request any additional funding but clarifies the amount of seller carry-back financing that can be provided for the homes.

Though the program's funding relies on proceeds from initial home sales to be used for the rehabilitation of additional homes, it is envisioned that the seller financing limits recommended in this report will not significantly affect the project schedule. The housing authorities will still receive between 50 percent to 65 percent of the market price of the homes net the costs associated with the sale and the home's rehabilitation. It is anticipated that the housing authorities will net an average of approximately \$50,000 per home at the time of closing and will receive the balance due under the seller carry-back financing in 30 years or at the time of the resale or refinance of the home.

Environmental Review:

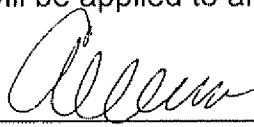
The proposed action to rehabilitate and sell these homes is exempt from environmental review under the CEQA Guidelines Section 15301(d) and under NEPA per HUD regulations at 24 CFR Sections 58.35(a)(3) and (a)(5).

Policy Considerations:

Rehabilitating rental single family homes and selling them to new low income homeowners are activities endorsed by the City and County in their Housing Elements. This is a particularly significant activity because most of the homes owned by the housing authorities are located in lower income neighborhoods, which are striving to increase homeownership.

M/WBE Considerations:

Minority and Women's Business Enterprise requirements will be applied to all activities to the extent required by federal funding.

Respectfully submitted by:  _____
ANNE M. MOORE
Executive Director

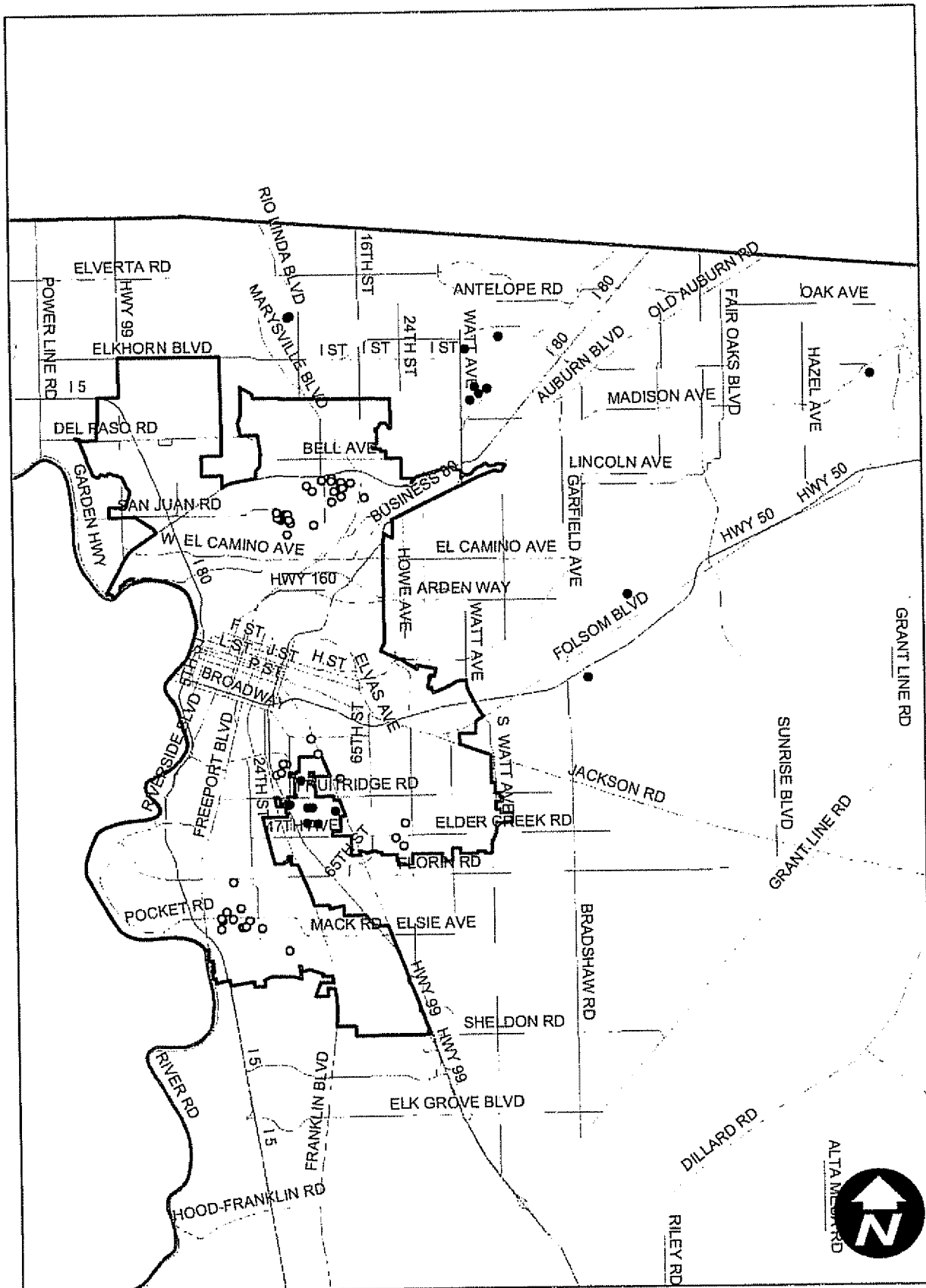
Recommendation Approved,


ROBERT P. THOMAS
City Manager

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ATTACHMENT A

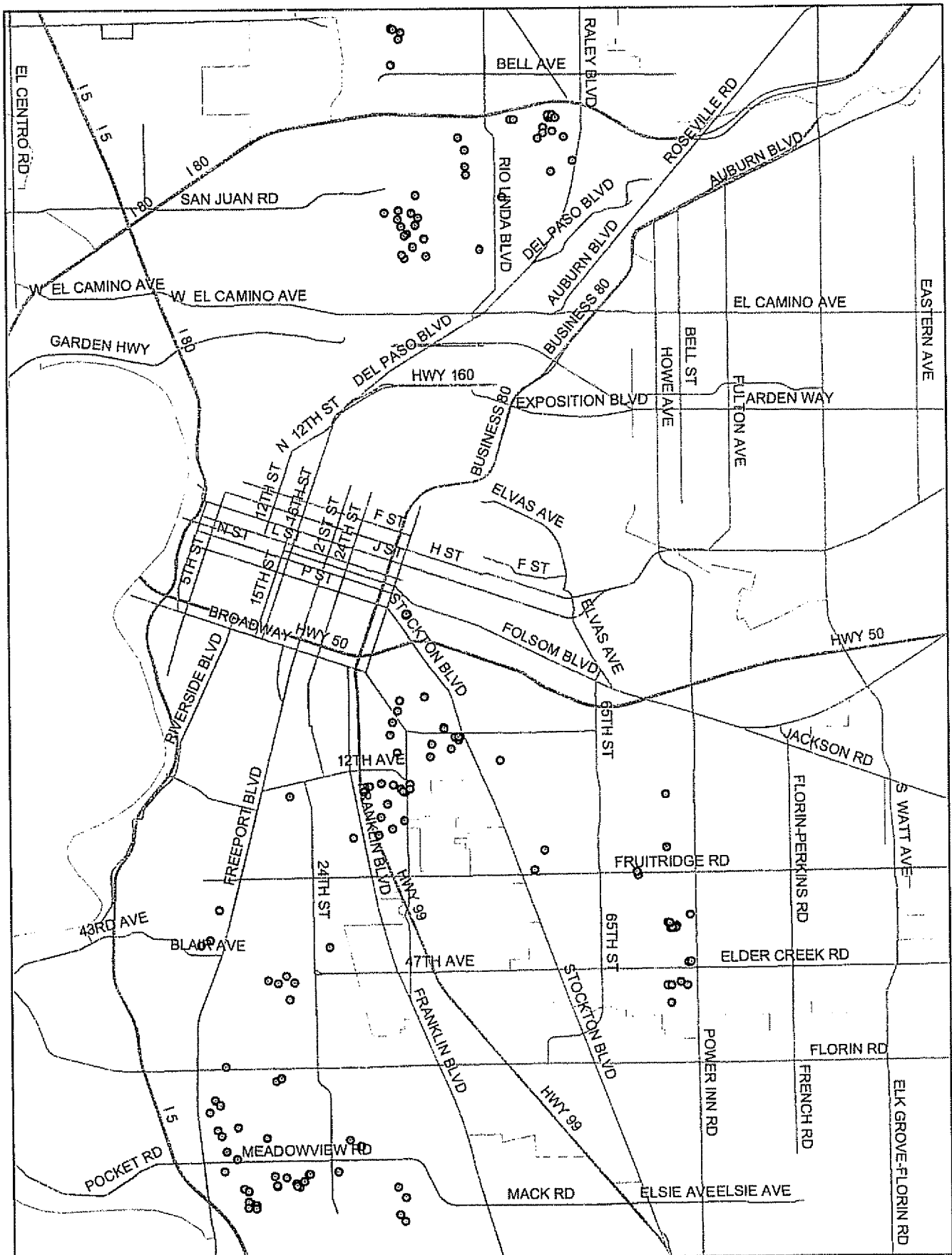


5(h) Vacant Homes in the City and County of Sacramento

Legend

- Units in City of Sacramento
- Units in County of Sacramento

ATTACHMENT B1



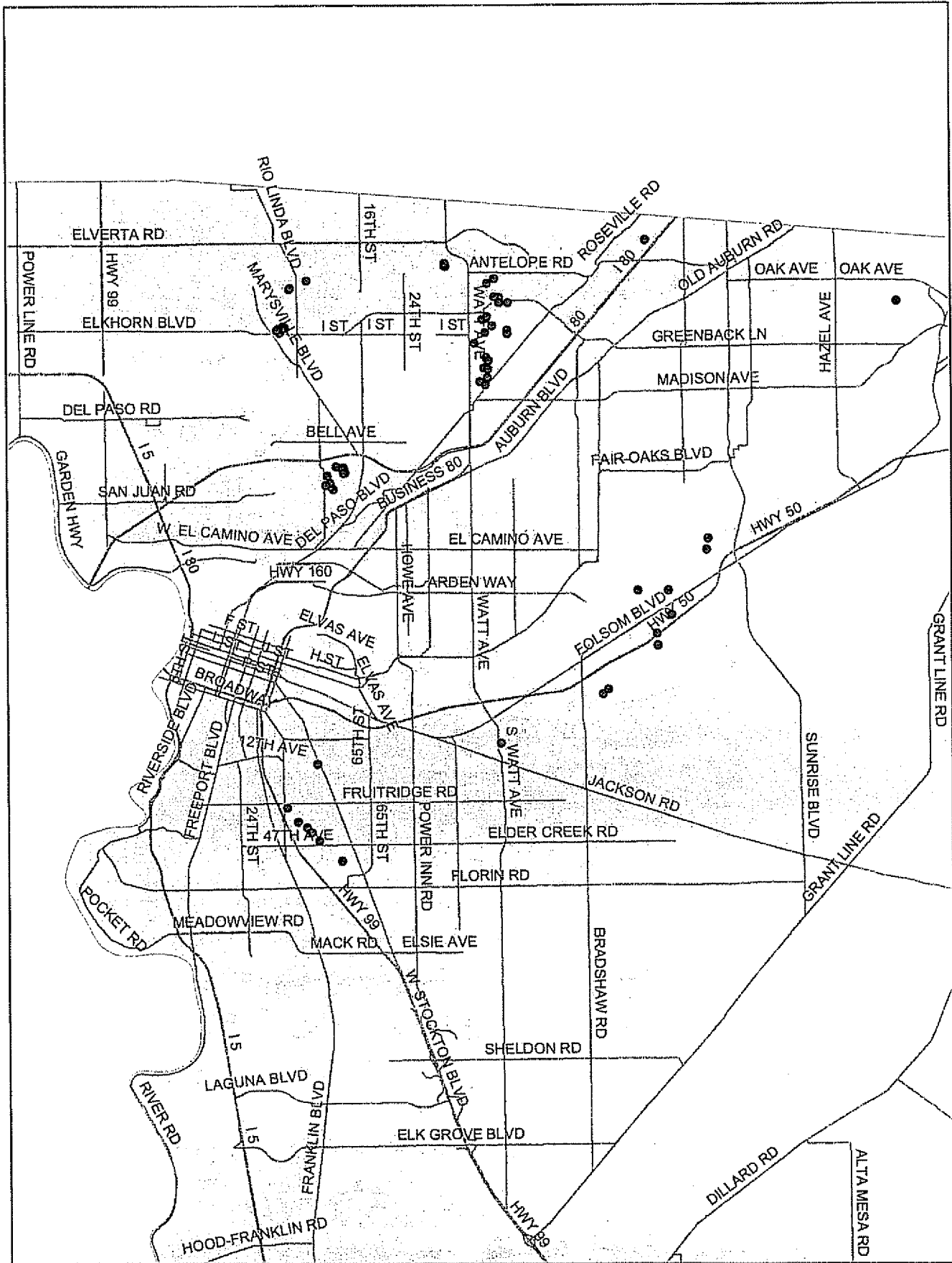
Section 32 Homes in the City of Sacramento



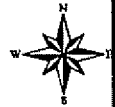
Legend

- City of Sacramento: Section 32 Housing
- City of Sacramento

ATTACHMENT B2



**Section 32 Homes in the
County of Sacramento**



Legend

- County of Sacramento
- County of Sacramento: Section 32 Housing

RESOLUTION NO. _____

Adopted by the Housing Authority of the City of Sacramento

MODIFICATION TO PUBLIC HOUSING HOMEOWNERSHIP PROJECT: ESTABLISHMENT OF MAXIMUM AMOUNT OF SELLER FINANCING

BACKGROUND

- A. In 1997, the Housing Authorities of the City and County of Sacramento received the approval of HUD and the Sacramento City Council to convert to homeownership the 389 scattered single family houses owned by the housing authorities. The goal of the project was to offer homeownership opportunities to residents of public housing, Housing Choice Vouchers (HCV) participants, persons on the public housing and HCV waiting lists, and low-income persons in the community.
- B. This initial project was called the 5(h) Homeownership Program, or "Homes for Sale" project. To date, 60 houses have been sold to public housing residents and HCV participants who were given priority to purchase the housing if they met income and rental history requirements. The Agency could not cause families in the single family homes to relocate to other public housing if they did not wish to participate in or were not eligible for the homeownership project thus the 5(h) program was used primarily for vacant homes.
- C. In November 2004, the Agency requested HUD's approval to limit the 5(h) project to the existing 73 vacant houses, and to subsequently apply to HUD to allow 212 homes to be sold under HUD's Section 32 project which does allow for relocation of tenants.
- D. Both approved programs described that the Authority would provide seller carry-back financing to bridge the gap between the market price and a price affordable to a low-income purchaser. However, the prior authorization did not specify the amount of allowable carry-back financing.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE HOUSING AUTHORITY RESOLVES AS FOLLOWS:

- Section 1. The Executive Director or her designee is authorized to provide seller financing for the sale of homes under the Public Housing Homeownership Project, which includes homes in the 5(h) and Section 32 programs, as follows: (a) an amount up to 50% of the market price of the homes for priority buyers (defined under the Project as public housing residents, HCV households and participants in the housing authorities' Family Self-

Sufficiency Program), and (b) up to 35% of the market price of the homes for other low-income qualified buyers. The seller back financing would be in the form of a three percent interest 30 year term loans with payment due on resale. The Executive Director or her designee is authorized to execute any and all loan documents and related agreements.