12.1

SACRAMENTO HOUSING & REDEVELOPMENT AGENCY

FROM ~~7.21.98~~ CONTINUED TO 7.28.98

APPROVED

JUL 28 1998

SACRAMENTO HOUSING AUTHORITY
CITY OF SACRAMENTO

July 15, 1998

Housing Authority of the City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT TAX-EXEMPT BOND PROPOSAL: DISCOVERY PARK (a.k.a. Tamaron Ranch) APARTMENTS

LOCATION & COUNCIL DISTRICT 2025-2065 West El Camino Ave., District 1

RECOMMENDATION

Staff recommends approval of the attached resolution which: 1) indicates the willingness of the Housing Authority of the City of Sacramento to issue tax-exempt mortgage revenue bonds to provide rehabilitation and permanent financing for the Discovery Park multi-family rental project located within the City of Sacramento; and 2) authorize an application to the California Debt Limit Allocation Committee for allocation authority to issue the bonds.

CONTACT PERSONS

Beverly Fretz-Brown, Director of Housing Development, 440-1357
Darren Bobrowsky, Associate Housing Finance Specialist, 440-1302

FOR COUNCIL MEETING OF July 21, 1998

SUMMARY

This report presents for adoption the attached resolution to: 1) indicate the Housing Authority's intent to issue mortgage revenue bonds to provide rehabilitation and permanent financing for Discovery Park Apartments; and 2) authorizes application to the California Debt Limit Allocation Committee for authority to issue the bonds. These actions will not bind the Housing Authority to issue bonds until and unless all other necessary actions and approvals are taken or received in accordance with all applicable laws and to the satisfaction of the City Council.

COMMISSION ACTION

It is anticipated that at its meeting of July 15, 1998, the Sacramento Housing and Redevelopment Commission will adopt a motion recommending approval of the attached resolution. In the event it fails to do so, you will be advised prior to your July 21, 1998 meeting.

BACKGROUND

Trammell Crow Residential (TCR) has purchased the Discovery Park Apartments (proposed to be renamed Tamaron Ranch Apartments), which is a 796-unit multi-family rental complex located at 2025-2065 West El Camino Avenue in South Natomas (a map is included as Attachment I). The complex was constructed between 1979 and 1982 and consists of 414 one-bedroom/one-bath units, 224 two-bedroom/one-bath units and 158 two-bedroom/two-bath units. The units range in size from 600 to 838 square feet. Amenities on-site include three combination swimming pool/spa areas, two individual spas, a clubhouse with large community room and kitchen, two tennis courts, two basketball courts and covered parking. A chart summarizing the proposal and project proforma can be found in Attachment II and III.

TCR is an experienced real estate investment and management entity. It purchased this property on June 5, 1998 for $29.2 million, with funds obtained from Allegis Realty as a "participating lender." Upon bond issuance there will be approximately $12.5 million of "participating debt" in the project in addition to the tax-exempt bonds.

TCR proposes to renovate this 19-year old complex so that it may be repositioned to better reflect the anticipated growth of the Natomas area. TCR proposes to undertake rehabilitation on-site totaling $9,154,193, or $11,500 per unit. The proposed scope of rehabilitation includes project-wide replacement of roofing and siding. Individual rental units will be upgraded with new carpeting, vinyl, appliances, counter tops, and bathroom fixtures. The Developer has submitted a more comprehensive scope of work, which can be found in Attachment IV.

TCR has developed $3 billion in residential developments and operates in more than 50 residential markets. TCR currently manages more than 50,000 apartments with 5,566 units, located in 23 properties in Washington, Oregon and California. In the Sacramento area, TCR owns and operates the Slate Creek and Indigo Creek apartments in Roseville.

As a public entity, the Authority can issue tax-exempt bonds, the proceeds of which provide acquisition and rehabilitation financing for multi-family housing projects. Because interest paid on the bonds is exempt from federal and state income tax, bondholders will accept a below-market yield from the bonds. These savings are, in turn, passed on to the project owner in the form of a below-market rate loan, with interest rates approximately one to two percent below prevailing market rates. In general recipients of bond financing are required to undertake rehabilitation work and set aside units for rental to families earning less than 50 percent of the area median income, adjusted for family size.

Project rehabilitation. Existing projects financed with tax-exempt mortgage revenue bonds are required to undertake rehabilitation with a value of at least 15 percent of the acquisition cost of the subject property's improvements (that is, total project acquisition cost, minus value of the land). As part of the Agency's multi-family lending policies adopted by the Council in January 1998, all acquisition and rehabilitation projects financed with tax-exempt bonds must conform to standards requiring: 1) that all health and safety deficiencies existing on-site be corrected; and 2) that major systems have expected lives of 15 years or more upon completion of the rehabilitation, or that adequate reserves be established and funded to replace the systems as needed. Staff has begun its evaluation of the project's current conditions and proposed rehabilitation plans in conformance with those policies. Detailed unit assessments and cost matrices have not yet been submitted by the owner but will be required prior to staff's proceeding with future public hearings on the project. A summary of the evaluation performed by staff to date is included with this report as Attachment V.

Low-income Set-aside Requirements. As a condition for receiving the benefits of this below-market rate financing, federal law requires that project units be set aside for targeted income groups for at least 15 years. The set-aside requirements are: at least 20 percent of projects' total units rented to households earning 50 percent or below of the area median income; or alternately, 40 percent of project units rented to households at or below 60 percent of area median. The former will be required for Discovery Park. State law further requires that monthly rents for the set-aside units be limited to 30 percent of the targeted group's monthly income, adjusted for household size. The project's set-aside requirements will be specified in a regulatory agreement between the Housing Authority and the developer, to be executed upon closing of the bond sale. The maximum income and rent levels projected in connection with these set-asides are shown in Attachment VI. (Discovery Park currently has five Section 8 Housing Assistance Payment contracts, four of which are expiring. Section 8 tenants will be given "portable" certificates to rent housing elsewhere.)

State and Local Approval Process. The Housing Authority must apply for and receive authorization from the California Debt Limit Allocation Committee (CDLAC) prior to issuing mortgage revenue bonds. (Refunding bond issues and bonds issued on behalf of qualified 501(c)(3) nonprofit organizations do not require CDLAC authorization.) The "volume cap" that is allocated by CDLAC through a competitive process for projects statewide is limited and is already exhausted for 1998. Staff thus proposes to submit an application for consideration at one of CDLAC's meetings early in 1999. If approved, the bond authority to be drawn against CDLAC's 1999 volume cap on behalf of Discovery Park will be an amount not exceeding $30,000,000.

Project Inducement. Prior to granting bond allocation, CDLAC will require that an "inducement" resolution be adopted by the entity proposing to issue the bonds. Inducement at this time will also allow TCR to be reimbursed, from bond issue proceeds, for acquisition and rehabilitation expenses that it has and will incur. Staff thus recommends that the City, acting as the Housing Authority, adopt a resolution to indicate its intent to issue bonds to finance TCR's purchase and rehabilitation of the project. Adoption of the resolution will not bind the City to issue bonds until and unless all other necessary actions are taken in accordance with all applicable laws. Staff will return to the Council at a later date with further details on the project's overall financing plan, rehabilitation, regulatory agreement and fees that will be due the Agency.

FINANCIAL CONSIDERATIONS

Adoption of the attached resolution will not result in any direct financial impact to the City or the Housing Authority. TCR will be responsible for payment of a processing fee and posting of a one-half percent performance deposit required by CDLAC. Staff will report back with specific financial considerations of the proposed bond financing which will include the Agency's collection of fees, both upon sale of the bonds and also semi-annually for the term of low-income set-aside requirements. Mortgage revenue bonds, in general, do not represent a financial obligation of the Housing Authority of the City of Sacramento.

POLICY CONSIDERATIONS

The issuance of mortgage revenue bonds is consistent with previously approved policy and the Agency's goals of promoting the development of affordable housing countywide.

ENVIRONMENTAL REVIEW

The proposed actions do not constitute projects under CEQA per Guidelines Section 15378 (b)(3); NEPA does not apply. Rehabilitation and permanent financing of the project is exempt from CEQA per Guidelines Section 15301 and 15310.

M/WBE CONSIDERATIONS

M/WBE considerations are not applicable to the actions recommended in this report.

Respectfully submitted by,

ANNE M. MOORE
Acting Executive Director

Transmittal recommended by:

Betty Masuoka
for WILLIAM EDGAR
City Manager

RESOLUTION NO. HA 98-004

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO

ON DATE OF ______________________

APPROVED
JUL 28 1998
SACRAMENTO HOUSING AUTHORITY
CITY OF SACRAMENTO

DECLARING INTENTION TO REIMBURSE EXPENDITURES FROM THE PROCEEDS OF TAX-EXEMPT OBLIGATIONS AND DIRECTING CERTAIN ACTIONS

WHEREAS, the Housing Authority of the City of Sacramento (the "Authority") intends to issue tax-exempt obligations (the "Obligations") for the purpose, among other things, of making a loan to TCR No. 420 Discovery Park Limited, a California limited partnership, or such other legal entity established by such partnership (the "Developer"), the proceeds of which shall be used by the Developer to finance the acquisition, rehabilitation and development of a 796-unit multifamily housing facility located at 2025 through 2065 West El Camino Avenue, Sacramento, California and currently commonly known as Discovery Park Apartments (the "Project"); and

WHEREAS, United States Income Tax Regulations section 1.103-18 provides generally that proceeds of tax-exempt debt are not deemed to be expended when such proceeds are used for reimbursement of expenditures made prior to the date of issuance of such debt unless certain procedures are followed, among which is a requirement that (with certain exceptions), prior to the payment of any such expenditure, the issuer must declare an intention to reimburse such expenditure; and

WHEREAS, it is in the public interest and for the public benefit that the Authority declare its official intent to reimburse the expenditures referenced herein;

NOW, THEREFORE, BE IT RESOLVED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO:

FOR CITY CLERK USE ONLY

RESOLUTION NO.: ______________

DATE ADOPTED: ______________

Section 1. The Authority intends to issue the Obligations for the purpose of paying the costs of financing the acquisition, rehabilitation and development of the Project.

Section 2. The Authority hereby declares that it reasonably expects that a portion of the proceeds of the Obligations will be used for reimbursement of expenditures for the acquisition, rehabilitation and development of the Project that are paid before the date of initial execution and delivery of the Obligations.

Section 3. The maximum amount of proceeds of the Obligations to be used for reimbursement of expenditures for the acquisition, rehabilitation and development of the Project that are paid before the date of initial execution and delivery of the Obligations is not to exceed $30,000,000.

Section 4. The foregoing declaration is consistent with the budgetary and financial circumstances of the Authority in that there are no funds (other than proceeds of the Obligations) that are reasonably expected to be (i) reserved, (ii) allocated or (iii) otherwise set aside, on a long-term basis, by or on behalf of the Authority, or any public entity controlled by the Authority, for the expenditures for the acquisition and rehabilitation of the Project that are expected to be reimbursed from the proceeds of the Obligations.

Section 5. The Developer shall be responsible for the payment of all present and future costs in connection with the issuance of the Obligations, including, but not limited to, any fees and expenses incurred by the Authority in anticipation of the issuance of the Obligations, the cost of printing any official statement, rating agency costs, bond counsel fees and expenses, underwriting discount and costs, trustee fees and expense, and the costs of printing the Obligations. The payment of the principal, redemption premium, if any, and purchase price of and interest on the Obligations shall be solely the responsibility of the Developer. The Obligations shall not constitute a debt or obligation of the Authority.

Section 6. The law firm of Jones Hall, A Professional Law Corporation, is hereby named as bond counsel to the Authority in connection with the issuance of the Obligations. The fees and expense of bond counsel and any financial advisor employed by the Authority in connection with the issuance of the Obligations are to be paid solely from the proceeds of the Obligations or directly by the Developer.

Section 7. The appropriate officers or staff of the Authority are hereby authorized, for and in the name of and on behalf of the Authority, to make an application to the California Debt Limit Allocation Committee for an allocation of private activity bonds for the financing of the Project.

Section 8. The adoption of this Resolution shall not obligate (i) the Authority to provide financing to the Developer for the acquisition, rehabilitation and development of the Project or to issue the Obligations for purposes of such financing; or (ii) the Authority, or any department of the Authority or the City of Sacramento to approve any application or request for, or take any other action in connection with, any environmental, General Plan, zoning or any other permit or other action necessary for the acquisition, rehabilitation, development or operation of the Project.

Section 9. This resolution shall take effect immediately upon its adoption.

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CHAIR

ATTEST:

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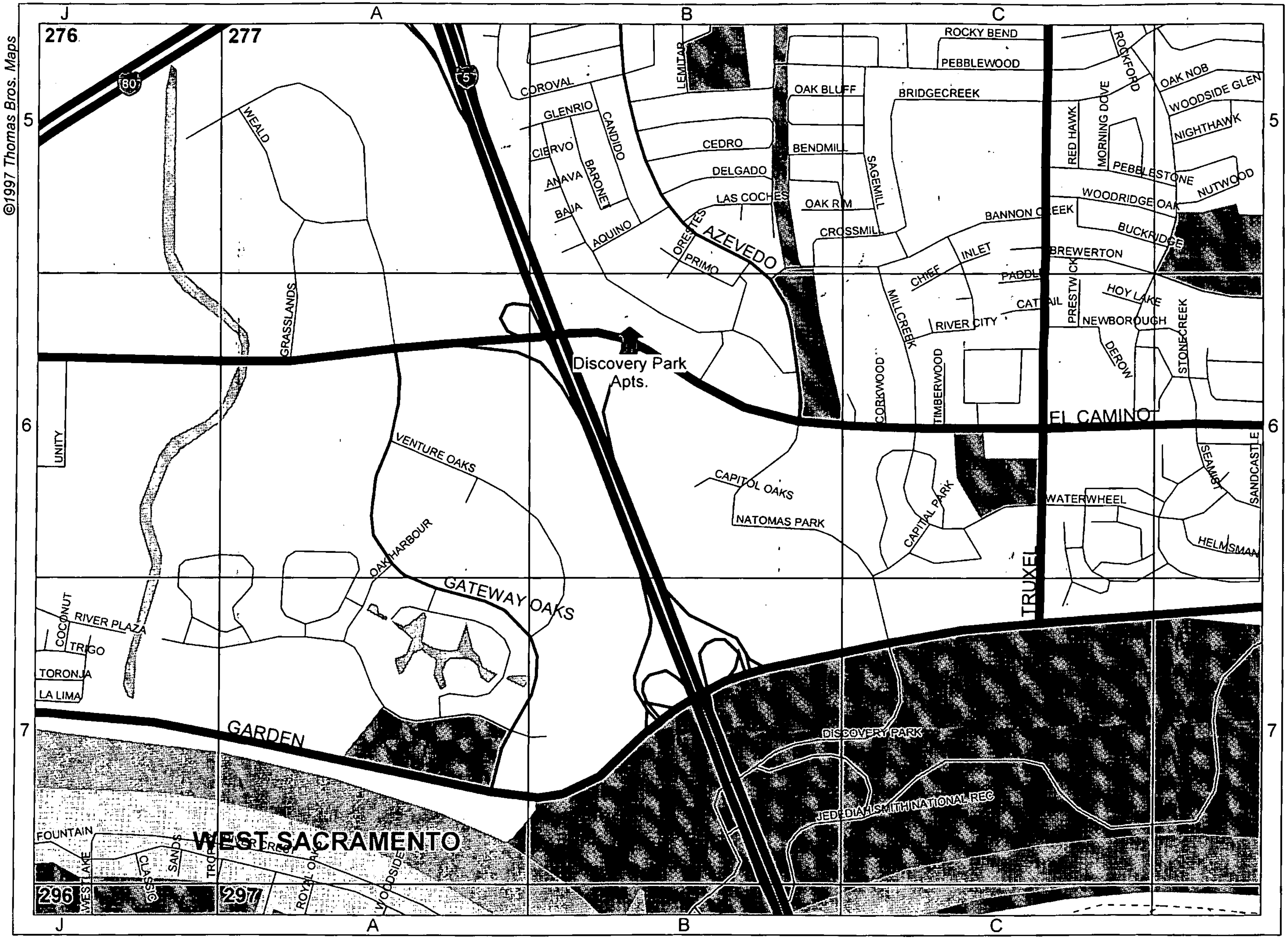
SECRETARY

FOR CITY CLERK USE ONLY

RESOLUTION NO.: ______________

DATE ADOPTED: ______________



🏠 *Discovery Park Apts.: Page & Grid 277 B6*

(8)

ATTACHMENT I

DEVELOPER'S PRELIMINARY PROPOSAL

Discovery Park (aka Tamaron Ranch)

Address	2025-2065 West El Camino Ave., Sacramento			
Number of Units	796			
Year Built	1979-1982			
Affordability	20% of units @ 50% of median			
Unit Mix and Rents	**Current**			**Proposed**
1 BD	414 @ $			$514-560
2 BD	382 @ $			$579-685
Square Footage				
1 BD	600-644			
2 BD	836-856			
Resident Facilities				
Existing	3 combination swimming pools/spas, 2 individual spas, 2 tennis courts, 2 basketball courts, club house with kitchen, laundry rooms and covered parking.			
Proposed (New)	Exercise room with equipment, new swimming pool			
Sources and Uses of Funds				
Bond Proceeds	$	30,000,000		
Partnership Equity	$	12,500,000		
Other (Construction Period Income)	$	-		
Total Sources of Funds	$	42,500,000		
				Per Unit
Acquisition	$	29,657,000	$	37,258
Rehabilitation	$	9,154,193	$	11,500
Other Costs: Financing, Reserves & Fees	$	3,688,807	$	4,634
Total Uses of Funds	$	42,500,000	$	53,392
Management - Operations				
Proposed Developer	Trammell Crow Residential (TCR)			
Property Management Company	Trammell Crow Residential (TCR)			
Operations Budget (Total / Per Unit)	$	2,311,206	$	2,904
Reserves (Total / Per Unit)	$	238,800	$	300
Letter of Credit Provided By:	Not known			
Tax Credit Investor	Not Applicable			

Discovery Park Apartments

Unit Type	Number	Square Foot	Total Sq.Ft.	Monthly Rent	Per Sq. Ft.	Gross Annl. Rent
1 Bedroom/1Bath	332	650	215,800	$ 560	$ 0.86	$ 2,231,040
1 Bedroom/1Bath - 50% median	82	650	53,300	$ 513	$ 0.79	$ 504,792
2 Bedroom/1 Bath	179	860	153,940	$ 670	$ 0.78	$ 1,439,160
2 Bedroom/1 Bath - 50% median	45	860	38,700	$ 578	$ 0.67	$ 312,120
2 Bedroom/2 Bath	126	880	110,880	$ 685	$ 0.78	$ 1,035,720
2 Bedroom/2 Bath - 50% median	32	880	28,160	$ 578	$ 0.66	$ 221,952
Total	796	826	600,780	$ 605	$ 0.76	$ 5,744,784

	Increase/Yr		Per Unit	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15
Annualized Gross Income	2.5%		$ 7,217	$ 5,744,784	$ 5,888,404	$ 6,035,614	$ 6,186,504	$ 6,341,167	$ 7,174,448	$ 8,117,229
Other Income (unit/year)	2.5%	$ 40	40	31,840	$ 32,636	$ 33,452	$ 34,288	$ 35,145	$ 39,764	$ 44,989
Vacancy Rate (5%)			-361	(287,239)	(294,420)	(301,781)	(309,325)	(317,058)	(358,722)	(405,861)
Effective Gross Income			**$ 6,896**	**$ 5,489,385**	**$ 5,626,619**	**$ 5,767,285**	**$ 5,911,467**	**$ 6,059,254**	**$ 6,855,489**	**$ 7,756,357**
Expenses										
Operating and Maintenance	3.5%		2287	1,820,206	1,883,913	1,949,850	2,018,095	2,088,728	2,480,754	2,946,357
Property Taxes	2.0%		617	491,000	500,820	510,836	521,053	531,474	586,790	647,864
Replacement Reserves	3.5%		300	238,800	247,158	255,809	264,762	274,028	325,460	386,544
Total Expenses			**$ 3,204**	**$ 2,550,006**	**$ 2,631,891**	**$ 2,716,495**	**$ 2,803,910**	**$ 2,894,231**	**$ 3,393,004**	**$ 3,980,766**
Net Operating Income			**$ 3,693**	**$ 2,939,379**	**$ 2,994,728**	**$ 3,050,790**	**$ 3,107,557**	**$ 3,165,023**	**$ 3,462,485**	**$ 3,775,591**
Debt Service			$ 2,886	$2,297,323	$2,297,323	$2,297,323	$2,297,323	$2,297,323	$2,297,323	$2,297,323
Cash Flow after Debt Service			$ 807	$642,056	$697,405	$753,467	$810,234	$867,700	$1,165,162	$1,478,268
Debt Coverage Ratio				1.28	1.30	1.33	1.35	1.38	1.51	1.64

Attachment III

7/6/98, 9:21 AM
MATRIX - revised proforma, Proforma

SCOPE OF WORK FOR REHABILITATION PROJECT

The ownership objective of Discovery Park over the next 18 months is to begin a major capital renovation program covering the exterior and interiors of this 796-unit apartments community. The renovation will reposition this 19-year-old community to better reflect the anticipated growth of the Natomas neighborhood. Beginning in mid-July of 1998 the renovation of the 796-unit Discovery Park will include:

Re-siding the exterior with vinyl	Re-roof all 54 buildings and clubhouse
Perimeter fencing on El Camino & Azevendo	Controlled access gates at entries
Additional common area lighting	Carport repairs
Sidewalk repairs	Asphalt repairs
Window screens	Repair and/or replace exterior decks
Exterior painting	Replace utility room doors
New carpet & vinyl	New appliance package
New entry door locks	New lighting package
New thermostats & exhaust fans	New sinks and disposals
Heating repairs & replacements	Pool repairs
New smoke detectors	New clubhouse facility
New pool at clubhouse	New exercise facility at clubhouse
New basketball court	Landscaping upgrades
New entry signage and monument signs	New pool signage and building markers
New pool furniture	New mail kiosks

Discovery Park Apartments

Rehabilitation Scope of Work

Staff is currently in the process of reviewing the information submitted to date by the Developer. A staff Construction Technician walked the site and inspected two units at this time.

Based on this early review, staff has noted the project is not accessible for people with American with Disabilities Act (ADA) needs and has no child play area (tot lot) facilities. Staff has not received enough information to judge the adequacy of the proposed scope of work. Prior to the TEFRA hearing, we will review unit by unit data and cost estimates to judge whether they are in conformity with the City's adopted bond policies.

Rent and Income Restrictions

Mortgage Revenue Bond Program

(20% of units set aside for tenants at or below 50% of area median income)

Income Restrictions:

Family Size	Income
1 person	$ 18,000
2 person	$ 20,550
3 person	$ 23,150
4 person	$ 25,700
5 Bedroom	$ 27,750

Rent Restrictions:

Unit Size	Rent
1 Bedroom	$ 514
2 Bedroom	$ 579
3 Bedroom	$ 642