SENATE SELECT COMMITTEE
ON
MOBILEHOMES

Transcript of Hearing
on

CONVERSION OF RENTAL MOBILEHOME PARKS
TO
RESIDENT-OWNERSHIP STATUS

FEBRUARY 11, 1985
SACRAMENTO, CALIFORNIA
STATE CAPITOL

CHAIRMAN: SENATOR WILLIAM A. CRAVEN

MEMBERS: SENATOR PAUL CARPENTER
SENATOR JOHN DOOLITTLE
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Senate Select Committee on Mobilehomes

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BACKGROUND PAPER

CONVERSION OF RENTAL MOBILEHOME PARKS

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RESIDENT-OWNERSHIP STATUS

FINANCING AND OTHER PROBLEMS

FEBRUARY 11, 1985 HEARING

INTRODUCTION

California has an estimated 6,000 mobilehome parks, most of them rental parks. Two-thirds of the state's one million or more mobilehome owners live in such parks.

A rental mobilehome park is normally divided into lots or spaces by the park/landowner for mobilehome owners to place their coaches on a rental or lease basis. Land held out for occupancy of two or more mobilehomes must meet the physical standards and requirements of the Mobilehome Parks Act, Chapter 2 of Part I of Title 25 of the California Administrative Code, administered by the Department of Housing and Community Development.

Resident-owned parks, including subdivisions or co-ops for mobilehomes, have existed in some areas for several years, but in most cases these were developed from the beginning with the concept of the mobilehome owner having title to the land or a common

ownership interest in the park. The idea of park residents buying out the owner of an existing rental park, or the conversion of the park from a rental to a resident ownership status, is a fairly recent development.

WHY CONVERT THE PARK - ADVANTAGES AND DISADVANTAGES

The biggest advantage of resident ownership, as many mobilehome owners see it, is that most problems faced in rental parks, such as rent increases, displacement of the coach upon conversion of the park to some other use, or forced removal of a mobilehome upon sale to a third party, can be avoided.

The most frequently mentioned problem in rental parks is that of increasing park rents. This is particularly difficult for residents when the park is sold by one park owner to another, and refinancing of the purchase requires the new park owner to raise the rents substantially to cover his costs. In some communities, outcries over increased rents have led to locally imposed rent controls, rent arbitration or mediation. Some see resident ownership of mobilehome parks as a viable alternative to rent control.

Resident ownership also provides mobilehome owners a say in the adoption of park policies, rules and regulations, usually in the form of a vote through the homeowners' association. Additionally, there are financial incentives to park ownership which include increased value of the mobilehome itself, which is less liable to be displaced from its pad, the build up of equity, either of co-op shares or actual ownership of the space, and, lastly, various tax benefits, including the ability to write off property taxes and mortgage interest on state and federal income taxes.

Disadvantages of converting a rental to a resident-ownership park include primarily financial considerations. Often mobilehome owners are not cognizant of the complexities and procedures required to establish their own park. The cost involved is not only the financing of their individual pads or shared interest in a mobilehome cooperative, but also the front-end costs of hiring consultants and attorneys, as well as the processing fees and costs of improvements which may be required by local government as a condition for approval of the conversion. Local government requirements may include, under the Subdivision Map Act, the addition of curbs, gutters, better lighting or a host of other physical changes, which can add considerably to the cost of buying the park.

Additionally, some homeowners may find that the monthly costs of an ownership interest can exceed what they were previously paying in rent. The monthly payments on the mortgage may be higher than the rent,and homeowner association and maintenance fees to keep up the common facilities may further add to these costs. On the other hand, these are costs of an equity interest, as opposed to a rental interest with no return on investment at all.

TYPES OF MOBILEHOME PARK RESIDENT OWNERSHIP

In California ten to twelve conversions of rental parks to resident ownership have taken place in the last two years. Legally, a resident ownership interest may be held in one of several different ways. The most common types of resident owned parks include:

The condominium park

A condominium for mobilehomes is a common interest subdivision where residents have an undivided interest in the common areas, such as walkways, roads and green belts, coupled with an individual ownership interest in the space, the boundaries of which may or may not be physically attached to the land, except by easements, and may be defined as air space rights over the actual lot. Mobilehome owners have title to their individual unit or lot.

Subdivision or planned unit development (P.U.D.)

A mobilehome subdivision is similar to a condominium for mobilehomes in that each mobilehome resident has a separate interest in his/her lot together with an undivided interest with all other owners in the common areas. Unlike the condominium, however, the subdivision or PUD does not provide air space ownership. Each resident has title to his/her own lot.

Mobilehome stock cooperative

A mobilehome co-op is a common interest project where membership in a corporation is coupled with an exclusive right to lease a portion of the real property.

The mobilehome park is normally purchased by the co-op or corporation, and individual residents become members or shareholders by buying shares in the corporation, entitling them to an exclusive lease on their particular space and a vote on park matters. No one owns individual title to a lot, but rather the corporation owns title to the entire real property in the co-op.

Limited equity co-op

The limited equity co-op is similar to a stock co-op, except that shares may only be sold at a specified percentage above the original share value. Members wishing to sell their shares, therefore, are normally limited to obtaining simple interest on their equity. In this way limited equity co-ops are means of preserving the affordability of shares for new and low income buyers.

Non-profit rental mobilehome park

In a few cases, mobilehome park residents have chosen to form a non-profit corporation to buy out the park owner but continue to operate it as a rental mobilehome park. Although similar to a co-op, mobilehome owners have two distinctive ownership interests, one in the mobilehome and one in the park land. Such unformalized co-ops may be advantageous in situations where local government is otherwise reluctant to approve conversion of the park to a stock cooperative or subdivision.

There are advantages and disadvantages of each form of ownership. Cooperatives may be easier to establish than subdivisions, since co-ops do not fall under the Subdivision Map Act and may not be subject to as many local government requirements. Hence, co-ops are less expensive, at least at the beginning. On the other hand, subdivisions and condominiums may be easier to finance. Lending institutions may be more willing to make individual loans to residents on their lots or spaces, using their mobilehomes as collateral, than they are to make loans to the cooperative as a whole.

Other advantages and disadvantages of these various forms of ownership are detailed in GSMOL's "Land Management Handbook" and the California Association of Realtors "Alternatives to Mobilehome Rent Control, a Guide for Local Boards of Realtors."

FINANCING PARK CONVERSIONS

Financing park conversions may be the most difficult problem faced by mobilehome owners desiring to buy an interest in their park. Some of the financing options now available through public and private sources include:

1) Seller financing

Seller financing can provide an alternative to funding from private lending institutions or governmental agencies and often is the only feasible means of financing such conversions in some cases. One such example is the Oakcrest Mobilehome Park in San Diego County, once owned by the California Department of Transportation. Caltrans is carrying a ten-year 10% interest loan for 70% of the purchase price of the park.

2) Banks and financial institutions

Most private lenders do not have experience with mobilehome park conversions, and few have been willing to provide financing for conversion projects. In most cases lending institutions are more willing to provide funding for a subdivision or condominium for mobilehomes, where they can finance the individual purchase of the lot or space, using the mobilehome as collateral.

The National Consumer Cooperative Bank, a quasi-public agency formed in 1978 by Congress for the purpose of providing financing for both apartment and mobilehome park co-ops, has funded one cooperative park conversion in California to date.

3) Funding through local government

Another source of funding is the Community Development Block Grant Fund (CDBG), federal monies which are distributed by the Department of Housing and Urban Development (HUD) to local governments under certain guidelines. In some cases local governments have pledged CDBG money to assist lower income tenants with a down payment of their share of a mobilehome park conversion. In San Diego County, CDBG monies have been used to assist three such mobilehome park conversions, and specifically to assist lower income residents who could not afford the down payment. In these cases, the funds have been used, not to finance the entire park, but only the needs of the lower income residents. The county provides the down payment in exchange for part of the equity interest. When the resident sells the home or dies, the county will receive a proportionate share of the equity from the proceeds of the sale.

Local governments may also be able to use mortgage revenue bonds to assist tenants in financing their mobilehome spaces. The City of Escondido is now in the process of attempting to finance park conversions through a public-private consortium established for this purpose.

4) State funding

The State of California has a number of financial assistance programs which may be helpful to mobilehome residents contemplating conversion of a rental park to resident ownership.

Under the California Homeowner Assistance Program (CHAP) the state will provide low-interest loans to assist low and moderate income tenants in purchasing their park. The Oakcrest project, aforementioned, was partially funded through CHAP. Availability of CHAP funding is very limited.

Through the Predevelopment Loan Fund, administered by HCD, low-interest 7% to 7½% loans can be made to public agencies and non-profit corporations to make down payments leading to other long-term financing for the development and rehabilitation of subsidized housing, including a mobilehome park conversion. Other front-end costs, such as consulting fees, appraisals and the like, however, cannot be financed by such a loan.

The Mobilehome Park Purchase Fund, enacted by Senate Bill 2240 (Seymour) of the 1984 session, is now in the process of being set up by the Department of Housing and Community Development. The program will be operable in approximately six months. SB 2240 will provide some $3 million from the Mobilehome-Manufactured Home Revolving Fund for use as earnest money down payments for resident park purchases and other conversion costs. In addition, under SB 2240 the state may float state-backed mortgage revenue bonds for the purpose of providing long-term loans to qualified park residents needing funds to buy into a park conversion. Recent federal legislation, however, has restricted the use of mortgage revenue bonds (MRB's) and placed a sunset date of December 31, 1987 on their tax-exempt status. The future marketability of these bonds may be further impaired by current tax reform proposals of the federal Treasury which call for an even earlier end to tax-exempt MRB's.

PURPOSE OF THE HEARING

The purpose of this hearing is to take testimony on financing and other problems facing mobilehome park residents who wish to buy their parks. The committee is open to testimony from witnesses who wish to provide input on these problems and possible solutions.

# # #

RESOURCE INFORMATION:

Guide to Resident Ownership or Lease Managed Mobilehome Park (GSMOL Land Management Handbook), - Golden State Mobilhome Owners League.

Alternatives to Mobilehome Rent Control, A Guide for Local Boards of Realtors, California Association of Realtors, 1984.

IV.

TESTIMONY

SENATOR MELLO: Senator Craven is ill this morning and sends his regrets that he will be unable to be here. He has asked me to chair this meeting. I'm Senator Henry Mello and Senator Craven asked me to read his opening statement. Other members of the committee who hope to be here shortly are Senators Carpenter, Doolittle, McCorquodale and Presley. They are all aware of the meeting and indicated an interest in being here.

Let me also point out that this meeting is being taped and a transcript will be made of the entire hearing, which goes to all members of the Legislature. Therefore, many times at a hearing you only see one Senator present and say, "My goodness, no one cares and we're just talking to one person." But that is not the case. The entire transcript will be made available and then at that point members and their staff go over the entire testimony, and we try to move forward on that basis.

Let me introduce the staff who are here - John Tennyson is the Committee Consultant, who has many years on the Select Committee on Mobilehomes as well as with Local Government, and he is very knowledgeable and helpful to the committee. Also Mickey Bailey, to my left, is the Committee Secretary.

So I will now at this time read the opening statement that was to have been read by Senator Craven. So just bear with me while I read it.

Welcome to the first 1985 meeting of the Senate Select Committee on Mobilehomes. In the last few years, there has been considerable legislative interest in making it easier for residents to convert a rental park to their own ownership. At least a half dozen or more bills were introduced in this area last session, although a number of them didn't make it.

One of these established what is known as the Mobilehome Technical Assistance Project, within the Department of Housing and Community Development, Division of Community Affairs. HCD representatives are here today to discuss the parameters of what services and assistance they can provide in this regard under existing law.

Probably the most important bill which passed last year was SB 2240 by Senator Seymour. This measure set up the Mobilehome Park Purchase Fund and will provide some $3 million from the Mobilehome-Manufactured Home Revolving Fund for use as loans to residents for park purchases and other conversion costs. This legislation is the first to establish public funding through a loan program specifically for these kinds of mobilehome park conversions.

This year, in the 1985 session, two new bills have already been introduced in this area. They include AB 534 (Frizzelle), which would provide additional bond funding, proceeds from which would provide additional bond funding, proceeds from which could be used for loans to qualified park residents wishing to buy the park or space in their park. Additionally, Senator Seymour has introduced SB 29, which addresses another aspect of the problem, that is, giving park owners a reason to sell the park to the residents in the first place. His bill will provide favorable capital gains treatment on state income taxes for selling the park to residents, rather than to somebody else.

As the background paper, prepared by staff and available at the front table, here, indicates, the bottom line - to use a hackneyed phrase - is financing, private as well as public.

Of course, as usual in the area of mobilehomes, there are all kinds of problems. . . .

- Problems with local government requirements, fees, and subdivision maps;

- Problems with setting up a homeowners' association and developing an agreement among all the residents;

- Problems with what to do with homeowners who don't want to participate in the buy-out, to name a few.

But all of these problems are really irrelevant if the residents can't come up with the financing to buy the park in the first place. If the park owner is ready to sell, the residents must be organized and ready to buy, otherwise the park will be sold to another park owner, or developer who may then decide to convert the park to some other land use, such as a shopping center.

Our Committee receives many calls each week asking for information concerning how to go about converting the park to resident ownership, where to get financing, what the state is doing about it, and so forth. Obviously, the conversion of rental mobilehome parks to resident-ownership status is the fastest growing mobilehome issue.

So, today we are here to take testimony from you, mobilehome owners, consultants, representatives of government and others in the field who know, through experience, something about the problems in this new and developing area.

Without further delay, let us proceed with the agenda.

We have a list of persons here who have requested to testify, then anyone who is not on the list who may want to make a statement certainly will be allowed to do so. There are some changes as Leonard Wehrman of the National Mobile/Manufactured Home Owners Foundation and Jerry Fisher of Mitchell Management in San Diego have chosen to submit written testimony rather than give oral testimony. It will be incorporated into the transcript. We will now proceed with the rest of the speakers. Is Nancy Sweet here? OK. First, we have, from the HCD Department, Assistant Director of Legislative Affairs, who is accompanied by Jerry Rioux, Program Manager of the Mobilehome Technical Assistance Project. They will give an overview of HCD's programs and what assistance they can offer to mobilehome owners wanting to buy their parks. Nancy, are you going to be first?

MS. NANCY SWEET: I will. Thank you, Senator. I'm here on behalf of the Department at the request of the committee, who requested us to present a status report and some other information on what we have been doing in the way of implementing the two bills you mentioned earlier regarding the Mobilehome Technical Assistance Program. With me today is Jerry Rioux, the Program Manager from the Department of Housing, who is responsible for implementing those two programs, and he will present at this time a report on what he has been doing. Then he will answer any questions and provide any technical answers if you have any questions.

SENATOR MELLO: All right. Welcome, Jerry.

JERRY RIOUX: Thank you. I'd like to start by saying that I first became involved in mobilehome park conversions back in 1981 when the Department made a loan commitment under the CHAP Program to help the residents of the Oak Crest Mobilehome Park in San Diego County to purchase their park and convert it to a cooperative. I worked as a finance officer for the CHAP Program, and based on that experience found that the conversion of parks to resident ownership was a very difficult procedure and one in which the state needed to provide some additional assistance.

A little bit over a year ago, almost a year and a half ago, I began working on the Mobilehome Park Technical Assistance Program which was established to implement AB 1008, the McClintock bill requiring the Department to provide technical assistance to residents who wish to purchase their parks. For a little over a year I have worked on the Mobilehome Park Technical Assistance Program, conducting research into the issue of park conversions, obtaining legal opinions to help support park conversions, developing handouts, making presentations at workshops and providing direct technical assistance to park residents, consultants who were helping the residents and to local governments. During that period there was tremendous interest on the part of all the parties involved, the residents, the consultants and local government. They were all very interested in residents purchasing parks and converting them to resident ownership.

The biggest problem was that most people did not know how to go about the conversion process, and, as a result, the emphasis of the Program was to provide information to help those persons who were helping the individual residents rather than spending the majority of the time with individual residents. As a result, we have attempted to help local governments develop programs to assist the residents, and we have tried to make it easier for the residents to get through the local planning process by identifying or explaining laws and options that are available to local government. We also provided assistance through workshops, so a large number of people could benefit from it, rather than a smaller number. Some of the legal opinions that we obtained under this Program were that limited equity housing cooperatives are exempt from the Subdivision Map Act. This posed a problem in some jurisdictions because mobilehome parks are difficult to convert when the local government subjects them to the Subdivision Map Act. By obtaining this opinion we identified a way in which mobilehome park residents could convert their park to ownership without going through the Subdivision Map process. . .

SENATOR MELLO: Could you explain that briefly? Do they form a corporation?

MR. RIOUX: Yes, they form a cooperative as a corporation which is owned by the residents. The corporation owns the park; the residents own stock and a leasehold interest in their space. The cooperative stock is considered an interest in real estate in California for the purpose of financing. It is considered a subdivision for the Department of Real Estate, but it is not considered a subdivision for the purposes of the local government subdivision process. The kinds of problems that people have run up against in subdivisions include the fact that a local government might require the park to be brought up to brand new standards if it was developed as a mobilehome subdivision rather than a mobilehome park, and in most cases it is virtually impossible.

JOHN TENNYSON: I have a question if I might break in. Does that include, in some cases, the placement of mobilehomes on permanent foundations, which is very expensive, I understand?

MR. RIOUX: I, personally, have not heard that complaint, but, depending on how the local zoning ordinance is written, it is possible that the local government may require the mobilehome to be placed on a permanent foundation. The problem there is that the local ordinance only allows manufactured housing on single family lots if they are on a permanent foundation. The problem is how they have created their local ordinance and not that mobilehomes must be placed on a foundation if they are in a subdivision.

A couple of the others dealt with financing. Our legal staff prepared an opinion that stated that mobilehome park conversions would be eligible to receive assistance from redevelopment agencies for the use of tax increment financing. So if a redevelopment agency has a pot of money that is set aside for low and moderate income housing under the redevelopment laws - that money could be used to assist park residents to purchase and convert their mobile park. In a related matter, we prepared an opinion that states a local government can use the threat of condemnation as a way to provide a tax benefit to a park owner who sells to the residents. Under the concept of a friendly condemnation, under state and federal law, if a property owner has property condemned or is threatened with the condemnation of his property, he has suffered an involuntary conversion and therefore is able to defer the payment of capital gains taxes for two years, and, if the money is reinvested within two years, the tax is deferred, which is a fairly helpful benefit.

SENATOR MELLO: John?

MR. TENNYSON: One other question on that - is that federal or state capital gains?

MR. RIOUX: Both federal and state.

MR. TENNYSON: So the city condemns the property, in essence that is what you are saying?

MR. RIOUX: Well, the city doesn't have to condemn the property. The city would threaten to condemn the property if the owner does not sell to the residents. There is a benefit there to the city. The city does not actually condemn, but there are some benefits there because of the acquisition process that is required for local government to acquire property.

SENATOR MELLO: Wouldn't that put the city in a kind of difficult position? I'm trying to see here where a city government is going out and threatening private property ownership, that if they don't sell to somebody, they are going to condemn the property. That is sort of an unusual situation.

MR. RIOUX: Yes, it is, and the reason it is called friendly condemnation is because the threat of condemnation does not occur until there is general agreement about the sale.

SENATOR MELLO: In other words, the owner and the city use this threat of condemnation for tax purposes so they can negotiate?

MR. RIOUX: Right.

SENATOR MELLO: So it's really done then with the consent of the owner?

MR. RIOUX: It has to be. Although a local government conceivably has the ability to acquire a mobilehome park by condemnation.

SENATOR MELLO: Going back to your statement on using redevelopment funds designated for low and moderate income housing, wouldn't they be competing for the same pot that other conventional housing would be competing for, and therefore not have a pot of their own, which I would think would be more desirable?

MR. RIOUX: Yes, they would be competing against all other forms of housing.

SENATOR MELLO: So those in charge of the distribution of funds, if they like conventional apartments or housing better than mobilehomes, they would - you know, it depends upon a choice - rather than trying to make sure we had a separate pot for mobilehomes. Would it be possible to have a separate pot of redevelopment funds for the use of mobilehomes?

MR. RIOUX: I would assume that anything is possible, but as it stands right now that pot of money is designated to somehow support the redevelopment efforts of the community, and one way to support the efforts is to ensure that there is affordable housing in the community. I would assume that a number of jurisdictions would prefer to use the money to help residents purchase a mobilehome park rather than build other forms of low income housing. That is just based on my experience with local jurisdictions and with the ability of mobilehome park residents to influence local decisions.

SENATOR MELLO: What about conventional financing? Are they able to go down to the bank or other traditional lenders?

MR. RIOUX: They are, but they have a hard time. The problem is that a mobilehome park is a business venture, and the residents cannot provide the experience when they go to the lender. They can't say, "Well, we've been managing a mobilehome park for the past ten years, give us a loan." They can get a loan, but it's going to be more difficult. A mobilehome park loan is a commercial loan, and the value of the park is a function of its income, so that the banks may be leery to make a loan to the residents whereas they would lend. . .

SENATOR MELLO: . .but actually through their tenant council they have been more involved in direct management than the absentee owners are in some parks.

MR. RIOUX: Well, they would have to convince the lender of that, and that's where the difficulty is. Some lenders are receptive; others are not. There are actually two forms of financing that can be used for park conversions, and that depends on how the park owned by the residents. If the residents own the park as a cooperative, then they would get a blanket loan much like the owner of an investment property. It would be one loan covering the whole property. If they subdivide into condominiums or planned development, they would get individual loans as if they were purchasing a lot on which to place their home. In that case, they would go to the lender and probably offer both the lot and their home as security, and they could get a loan fairly easily. It would be more difficult to get a commitment prior to the conversion. Once it is converted, and the lot exists, then the lender would be willing to provide the financing. The problem they face is the interim financing. They either need to convince the lender to provide them a loan for the interim period, or they need some intermediary to hold the property in the meantime, or they need a good working relationship with the park owner to hold the property until they have completed the subdivision process.

SENATOR MELLO: OK. Do you have any further information?

MR. RIOUX: I wanted to talk briefly about this schedule for implementing SB 2240.

Staff was hired in December to begin working on the program; funds became available in January. We have proposed general lending policies for the program and those are currently under consideration. We recently began drafting the regulations, and it will take approximately six months or just under six months to complete the regulation process. As soon as the regulations are effective, we will begin accepting applications. We anticipate about a two-month period between the first date that applications are available and the funding commitments. Based upon a $2.8 million funding for loans, we anticipate providing assistance for between six and ten projects, and that would equate to between 200 and 300 individuals being assisted.

I'd also like to make a point that there are other HCD programs which can be used to assist residents with park conversions.

MR. TENNYSON: If I might, Jerry, before you get into that - back to SB 2240 - what kinds of loans do you foresee making: Are you going to be making loans to individuals who are buying their individual mobilehome parcel, such as a condo or a subdivision planned unit development, or are you talking about co-ops? Are you talking about interim loans to make a down payment, or long-range financing? Or is all that too difficult to project at this point?

MR. RIOUX: At this time we propose to make all three kinds of loans. We will make short-term loans, interim loans that we will call conversion loans - they will be available to groups who wish to purchase their park and convert it to a full subdivision, or they will also be available to groups who wish to convert to a co-op. The conversion loans will be for up to three years at the 7% interest rate. At this time we anticipate payments of interest only being required. We will make blanket loans, which are long-term loans up to thirty years to cooperatives, to non-profit corporations which do not become cooperatives, and if the security is adequate, to leasehold mobilehome parks. If the residents have an adequate lease, and we're not sure exactly what that is at this time, then we can make a loan for up to thirty years, amortized at 7% to reduce their debt service costs for those kinds of parks. We will also make long-term loans, probably 30-year amortized loans, for individual lots in mobile-home parks. Those loans could also be used to finance the purchase of shares in certain types of cooperatives.

MR. TENNYSON: OK. Thank you.

MR. RIOUX: One of the programs that has been involved in park conversions for the longest time is our pre-development loan program. This loan provides for loans at 7% interest for two years to pay for the early costs that a conversion project incurs. It's available to pay consulting fees, options, deposits on the purchase, filing fees, loan fees, etc. The program typically makes loans in the \$100,000 - \$200,000 range, and those loans could make it possible for residents to get the conversion process moving. The program requires that the residents have at least an option or an offer to purchase the park that is viable, that there be some form of financing, at least tentatively committed, and then the funds would be available. The pre-development loan fund was used to help the residents of Oak Crest prepare their package to get CHAP financing. It was also used by the residents of the Casa Mobilehome Park in Bell Gardens to take their project through conversion.

We also have a farm worker housing grant program which can be used to help residents who are employed in the agricultural field to purchase their mobilehome park. That program helped the residents at Santa Elena to purchase their park back in 1981.

The third program we have is the CHAP program, the

California Homeownership Assistance Program, which provided over half a million dollars to the residents of Oak Crest. At this time the funds are limited in CHAP, but it may be possible to get some additional funding for park conversions.

Thank you very much.

SENATOR MELLO: Thank you very much, Jerry. That was very interesting.

MS. SWEET: Thank you.

SENATOR MELLO: Nancy, thank you, also. The next speaker is Jerry Stirnkorb, Mobilehome Park Conversion Specialists, Inc. of Encinitas. Is Jerry here? (no response). Here we thought we were going to have testimony from a specialist to tell us how to do all this. Is he scheduled to come in later?

MR. TENNYSON: I guess.

SENATOR MELLO: OK. Well, we'll go on to the next person, Marie Malone, Vice President of the Golden State Mobilhome Owners League, from Vista. Welcome.

MARIE MALONE: Thank you, Senator. This morning I'm speaking as the State Coordinator for GSMOL's conversion of mobilehome parks through purchase by the residents.

You've heard from Jerry of all the things that are - some of the problems that we have. I'm not going to repeat any of those, but we are discovering a very real problem today in addition to the ones he has mentioned.

A few years ago we came before the Legislature to ask for the first right of refusal in the purchase of a mobilehome park. That was, when the park owner had it for sale, he had to offer it to the residents first. That was denied. And at the time it was denied Assemblyman Costa said to me that the Golden State Mobilhome Owners League should go out and create a program and be ready and make the offers to buy these parks. This we have accomplished, but since last fall over 1,000 people have been unable to purchase their parks because they did not know they were for sale until they were in escrow. The last one, which is Vista Meadows in San Marcos, the residents of the park had in hand a letter from the park owner saying that if the park was ever up for sale, they would have the first offer on it. Unfortunately, the lady who owned the park died, and it went into an estate and the executor of the estate sold it. The residents only discovered it when it was in escrow. They even went to offer half a million more dollars to the people who were going to buy it if they would let them buy it, and they didn't take it. They said to come back in six months.

What we would like to ask for now is not the first right of refusal. What we would seek is an opportunity to participate fairly in the free market, and what we would ask for is legislation that would say, "If a park owner is going to sell his park, at the time he places it on the market with his prices and that, that he also notify the residents of the park." We are becoming well enough organized in many places that this is all we would need to fairly compete in the free market. But if we do not know it - and I'm not condemning the owners for not broadcasting it to the residents of the park - it is very difficult for a park owner to sell to the residents. And the reason is this. He can come to me and say, "Marie, do you want to buy a park?" And I say, "Yes, here's $5 million." The deal is signed and sealed. But because government wants to protect us, it takes us over six months to a year to get the deal through to buy from the owner, and many owners - and just a week ago Friday I saw a poor owner go through what I would never have gone through to sell to residents from a planning commission, including lifetime assignable leases and a few other things that make it highly impossible. But we do feel that there are owners, and I know there are such owners because one in Vista just two weeks ago offered his park to the residents before he put it on the open market. But we ask for the fair opportunity to compete, and that is all that I have this morning.

SENATOR MELLO: I just have a question. This right of refusal doesn't appear to me to ever have worked very satisfactorily because you can give someone the right to refuse. Then go ahead and negotiate. The real question is whether the park residents have a chance to purchase it at the price when it goes into escrow.

MS. MALONE: That is the question. We don't want the first right of refusal. All we want to do is to be informed when it goes on the market because if we are not informed, we cannot compete in the market and when it is in escrow, it is too late.

SENATOR MELLO: You're saying that when he decides to put it on the market, once it sells, there should be notification given to the residents?

MS. MALONE: That's right.

SENATOR MELLO: And the price and disclosure and terms and everything. Then it seems to me that you would need a certain length of time in order to negotiate. Then can a person still go ahead and pursue other private buyers of the park?

MS. MALONE: Absolutely. Let us compete - because we can in very rapid form now get a letter of intent to the owner. It takes only about two meetings within a park to find out, first, if they want to buy the park and, second, can they afford it at the terms. This is why I ask for the price. If that can happen, we can have a letter of intent to him within ten days.

SENATOR MELLO: Now the other point that I think is critical here is whether it is easier for a park owner to sell to another private party and just put it into escrow and sell it than it is to sell it to the residents where you may be going through - we heard Jerry talk about the use of the cooperative arrangement and others, but I guess in all of those it would take some time to get this entity formed.

MS. MALONE: Yes, it does. The Map Act is really killing us.

SENATOR MELLO: So they may have some pressing problems and want to unload it quickly.

MS. MALONE: That is right, and we have no objection to that. I understand that, and I think we all understand that. I think it's more by omission; they are not aware of the fact; they do not realize how well organized we have become to purchase parks. And I see no reason why we shouldn't have the opportunity.

SENATOR MELLO: I'd like to ask our consultant, John, how he would envision this request for legislation where they are asking they be notified. What do you see as a necessary part of that?

MR. TENNYSON: We would have to - I'm not sure I fully understand it - you'd want the right to be notified as well as the price, is that what you're saying basically?

MS. MALONE: Yes, because basically if you are notified without a price, you have no place to go to convince people or to inform people because they don't know what it's going to cost them. Well, just take the case in Rancho Vista that just happened a couple of weeks ago. The owner said, "We are going to sell the park. Our price is $5.9 million; down payment of $600,000 and I will carry the rest of the paper." That's a complete outline of what he would probably put to sell through the real estate. He has to name his price there. He can't just go out and say he has a mobilehome park for sale. We are not interested in his cash flow. We are not interested in his profits. This is one of the reasons, for example, that Jerry pointed out about the capital gains tax forgiveness. We want something that is going to encourage him to come and sell to us because it is more difficult to sell to us because of the red tape involved.

MR. TENNYSON: I suppose it would be a problem as to what point in time. For example, at the time he in his own mind decides to sell it or the time he engages the services of a broker, there may be some problems with regard to that.

MS. MALONE: Right.

MR. TENNYSON: Perhaps later in the hearing Mr. Biddle would like to comment on this as the representative for W.M.A. I have one other question if I might, Marie. You were talking about some of the problems involving the requirements of local government in reference to a case where you said something about leasehold assignments. Could you elaborate a little more on that for the committee and the audience, some of the particular problems that were involved with that case.

MS. MALONE: Yes. Park Monserate is going to subdivide, and it's a park that is suitable as a subdivision. It has been offered. In every park, you must understand, when you first start out, you do not have 100% in agreement that they are going to purchase the park. You always have a few who are not willing or who are uncertain. In this particular case the few became very active. You had 2/3's of the park interested. The 1/3 became very active. By the time it went to the planning commission, the planning commission was sincerely impressed with all these people and their idea that something terrible was going to happen to them. They kept referring to the park owner as a developer. I guess it's popular to get developers, but in doing so the only one who really does the paying is the consumer. They required of him lifetime leases for those who did not choose to participate, assignable lifetime leases. Or, if they chose to move, he had to find a park for them to move to and pay them their moving expenses up to $6,000 within a 50-mile radius of where they were located.

No. 3, at the choice of the individuals who did not desire to participate and they desired to leave the park now, he had to pay full market value for their homes. Well, the price for all of this is going to rest on those who care to purchase and that's normal. The thing that I see in it is the terrible delay that has been brought about by this incident. You are going to have more park owners moving away; they are not going to put themselves through this; or, secondly, the people are not going to be able to afford to carry that many people in the park who have not purchased.

SENATOR MELLO: Well, when you come up to someone in their 80's who is making it fairly well and they are thinking about their own security, and you say you're thinking about buying this, they're not interested in a 30-year loan, any long-term indebtedness, at that point. They are just hoping they can continue the good life for a few more years. That's one of the problems you face.

MS. MALONE: We have been able to handle that. We're not investing. We're controlling our housing costs, and that is the way we sell the program, and that's all that we are doing. Rents continue to escalate. Frequently. . .

SENATOR MELLO: Let's go back to this point. If you had, say, one third or so who didn't want to participate and you bought the whole park, the two-thirds bought the whole park, would you still protect them in a like manner?

MS. MALONE: Yes, we do today. Any park that has been converted, for those who do not want to participate or for financial reasons cannot participate, if we cannot get the loans for those with the financial difficulty, we can rent those spaces to them from the association. There is no problem.

SENATOR MELLO: I mean do you raise the rent or do you. . .

MS. MALONE: It depends upon whether they can afford to pay and are just plain ornery and don't want to participate or whether they can't afford to pay. If they can't afford to pay the rent, it doesn't go up.

SENATOR MELLO: OK. John, any further questions?

MR. TENNYSON: Yes, one more comment on this. I understand that Mr. Frazee has introduced a bill, AB 256, that will now require - quoting this, "the majority of residents of a mobilehome park must approve the conversion of a park where spaces are rented to a condominium stock cooperative, planned unit development or any other form of ownership before it can proceed any further." Do you have any comment on that? Do you feel that is a problem?

MS. MALONE: No. We have to have a majority or we can't afford to buy the parks, and his is just a majority. What we recommend - and I don't recommend this be put into law - but what we recommend personally when we are talking to parks is a minimum of 70% in order to be able to swing the deal all the way through and have the money to do it.

MR. TENNYSON: One other question. There have been some suggestions made by some mobilehome owners that perhaps the solution to some of these problems would be to exempt park conversions from the Subdivision Map Act and the Subdivided Lands Law. Do you have any comment on that?

MS. MALONE: I think it would be a great day if it happened because it would cut down on the time. I understand government's concern where individuals are purchasing, but my question is this: it is very difficult for us to understand how somebody sitting behind a desk 100 miles away knows more about our mobilehome park than those of us who have lived in it 12 or 13 years. We know where every water pipe is that's busted, electricity and everything else. We know about that park from having lived there, and all we're doing is adding to the expense. Subdividing a park goes $3,000 - $5,000 more per space by having to go through the process, and this actually is harming mobilehome people.

SENATOR MELLO: OK. Thank you very much, Marie, for your interesting testimony. Next we have William French, Executive Director, Rural Community Assistance Corporation, of Sacramento. William French? He's not here.

Carl Votapka, Vice President of United Housing and Bonding Consortium, from Escondido?

CARL VOTAPKA: Honorable Senators, Honorable Assemblymen, members of this very worthwhile committee, ladies and gentlemen and to all of us who are concerned or involved in converting rented mobilehome parks to tenant mobilehome parks.

My name is Carl Votapka, Vice President of United Housing and Bonding Consortium of San Diego, California. I wish to take this time to thank you for inviting me and allowing me the time to express the problems that we have in getting bond financing because of a federal problem we have, and we are asking your help.

In my speech today I will tell you why we've got this problem.

After months of studying the problems facing mobilehome parks and attending numerous seminars on the subject, Jim Durkin and myself have come up with a unique plan for solving the problem of ever-increasing costs of housing for mobilehome park residents. We've searched throughout Southern California to find the most qualified bond consultants, bond underwriters, bond counsel and knowledgeable title company people to implement our plan. On November 5, 1984, the United Housing and Bonding Consortium unveiled their plan to the public for the first time at an Escondido Mobilehome Assistance Program meeting. This plan received the immediate acceptance of city officials, Golden State Mobilhome Owners League executives, park owners and park tenants, alike. In fact, eleven cities and two counties have since contacted United Housing and Bonding Consortium to introduce this plan to them.

A key component of this plan is to have cities and counties purchase existing parks through a redevelopment commission or community development commission set up for that purpose. Tax-exempt bonds would be issued, with the proceeds used to purchase the parks from existing landlords. The commission, in turn, would sell individual spaces to the tenants. Most tenants would probably borrow the money from the commission to facilitate the purchase of their space. Principal and interest due on the bonds would be repaid by the debt servicing on these loans. All of the above would be accomplished with no debt to the city or pledging of the city's general fund.

Other key components of our plan include:

1. All park owners participating in the plan would have their parks and individual spaces appraised by a M.A.I. appraiser. This appraisal would establish a fair price for both the selling and buying parties.
2. All spaces in each converting park would be engineering and surveyed by a qualified civil engineer.
3. All subdividing would be approved by the California Department of Real Estate.
4. All spaces would be sold with title insurance coverage.
5. The CC&R's of each park would be approved by the California Department of Real Estate and officials of the local municipality.
6. Tenants wishing to purchase their space could take advantage of the lower interest rates afforded by our bond financing. Certain qualifying low income persons could receive additional subsidies from local block grant funds and other assistance programs. The Consortium is also considering establishing a foundation to supplement monthly payments of needy purchasers.
7. Tenants not wishing to purchase at this time could continue to rent from the commission. No tenant will ever be displaced by our conversion process.

Due to the current high interest rates of conventional lenders, low and moderate level income purchasers need the lower interest rates afforded by the tax-exempt bonds to approximate their current cost of housing. However, the Consortium's bond counsel recently discovered there could be a serious roadblock to using such bonds. In an attempt to stop some of the abuses of the use of such bonds, the United States Congress has broadly restricted the ability to issue tax-exempt bonds. The Consortium's bond counsel believes, and staff attorneys for the Internal Revenue Service have agreed, that bonds issued under this proposal would probably be denied tax-exempt status.

Without the benefits of tax-exempt status, payments on a typical mobilehome space could be $75 or higher each month than it might otherwise be. Ladies and gentlemen, this represents a vast amount to someone on social security or a very low income. It may mean the difference of living with or without dignity during the last years of their life.

My figures show that in San Diego County alone, there are 523 mobilehome parks, of which 212 have 75 or more spaces. There are well over 19,000 spaces in San Diego County. Using an average of one and a half persons per space, an estimated 30,000 people live in mobilehomes in San Diego County. In Los Angeles, Orange and Riverside Counties an estimated 60,000 persons reside in mobilehome parks. It is roughly estimated that 1/2 million people live in mobilehome parks in California, a vast majority of those persons with low and moderate levels of income. And, ladies and gentlemen, I have just learned there are closer to one million people living in mobilehomes in California. We must find a way to help this significant and growing number of needy persons in our state.

I remember attending a certain seminar awhile back where a speaker from a certain government agency said, "When you're the first or second person to implement a new idea, there are going to be roadblocks." That is certainly true in our case. To our knowledge, no one in the United States has ever tried to put together a plan like ours. But we've studied all the problems and have diligently searched out solutions. Now we are facing a serious roadblock. The recent federally-enacted restrictions will not allow our plan to move ahead because it is not specifically allowed. We feel Congress ought to change that and allow our plan to proceed.

In talking with staff aides for Senators on the Senate Finance Committee and Congressmen on the House Ways and Means Committee in Washington, D.C., it came back loud and clear that they want feedback from elected state, county and city officials on this matter, as well as word from the various associations of mobilehome park tenants and owners. It is my feeling that mobilehome park financing was not granted a specific exclusion from the restrictions affecting tax-exempt bonds because no one had ever thought to use them for such purposes before.

Your support is urgently needed. It is important that we act fast, as land prices are rising every fiscal quarter. Any further delays only aggravate the situation and could ultimately make land costs prohibitive to the tenants. I request that you, individually and collectively, immediately encourage the various United States congressional committees to act soon. Respectfully submitted.

And now I do have for the people in the audience a copy of this speech that could help them if they are interested, and also I will be glad to answer questions from members of this committee in the time that might be alloted me, and then to carry on to some people in the audience if it would be something of some help to them. It would pertain to the tax-exempt status on bond financing. As far as subdividing land was concerned, and we just heard testimony, we had this boiled down to about $1500 per space and this was insured for the long run that people could insure their spaces as far as title insurance was concerned. We had it down real good. Our only problem is the federal government on the tax-exempt status, and I'll tell you this at the state, county and local levels we have had nothing except the greatest cooperation here in the State of California. It has just been great, and I want to thank you for that.

SENATOR MELLO: With regard to tax-exempt bonds for financing mobilehome parks, as I read the papers and my concern about what is happening in Washington, they are moving the other direction. They are trying to disallow the tax-exempt status for municipal bonding and for all other types of bonding, mainly because of the revenue loss to the federal government. Of course, with the $200 billion deficit they are looking for every means of cutting that deficit and changing programs which will bring about a change in the deficit, and I think this input these Congressmen have - well, as John points out, there are over a million residents in mobilehomes in California, and if they make their voices heard back in Washington, you know the squeaking axle gets the grease, it might bring it about.

But you also mentioned local block grant funds. In my talking to local governments, they are shrinking just as fast as well - revenue sharing and block grant funding - you know we're going into a period of expecting - well, we've been too dependent on Big Brother, I think personally. We've just got to start solving our own problems here at home. The fact they are making these programs available, then certainly California is entitled to its share. But what I see happening is a tremendous cutback on federal grants and allocations to states and local governments in order to carry out what have been worthwhile programs in the whole redevelopment process and so forth.

MR. VOTAPKA: That's right, Senator.

SENATOR MELLO: But what I'm trying to say is you emphasize the need for this, but let's look at some other alternatives. What can we do here in California? Maybe putting a bond issue on the ballot along with our housing bonds, and veterans bonds, and clean water bonds, and sewer bonds that we put up, maybe we should put up an issue that would allow tax-exempt financing for issuing some bonds in the State of California.

MR. VOTAPKA: Would that affect the federal tax exemption? In this packet I gave you, Senator, the words "consumer use" other than that would not have affected this in any way, shape or form. We would have been able to continue on. Because the words "consumer use" are in the Congressional Record of June 22, 1984, that is what has blocked out this and put the serious doubt into it. Whereas it was spelled out to people on the low housing costs being built, senior housing costs being built, etc., those are all tax-exempt bonds and they don't have any intention at the present time, as I understand it, of cutting them. This is just one facet. Because nobody has ever really looked into it or ever thought of using that purpose before, unless it was specifically spelled out that it would be tax-exempt why they are not going to use them as tax-exempt. All I'm asking is that some pressure be put on the Ways and Means Committee and tell them back in Washington how we feel out here in California about some people who need some help. I've seen people here in California in mobilehome parks who have to go to bed at 7 p.m. because they can't afford to have their heat turned up to watch TV at night. And that actually happens.

SENATOR MELLO: And, like you said, when you made the point that the difference $75 a monty makes in getting these tax-exempt, low-interest bonds. $75 a month is a lot of money to people on fixed incomes, but what is the alternative? If the park owner raises the rent - in my district in one park over a 14-month period they had five increases in rent, and the people just were startled.

They change ownership and raise the rents, and they are doing this all over, not as many as five, but I think certainly they are getting one bump a year and some two. Then in a change of ownership they really come up and give them a big raise. So the point is it's better to freeze it.

MR. VOTAPKA: That's what we're trying to do is freeze it by them owning it.

SENATOR MELLO: Well, I don't like the word "freeze." I come out of the business sector myself and I like free enterprise to work, but what I think has to happen here is to go in and find some method of getting money available because we are talking about private property that this park owner has.

MR. VOTAPKA: That's right, and we're saying that he has the right to sell to the park tenants or he doesn't have the right to sell to the park tenants. It's not anything that is going to force him to sell.

SENATOR MELLO: Yes, but what I want to see is a way to get some financing available so these tenants, if that is what they want to do, they can. . .

MR. VOTAPKA: We'll appreciate all the help we can get.

SENATOR MELLO: . . .get the financing and buy this so they can then govern their own future instead of having to be worried about a sell-out and a price increase. At least they will have their own. . .

MR. VOTAPKA: This is what our plan includes. They will buy out the park. The tenants are buying out the park.

SENATOR MELLO: No one has responded - I don't know whether you can or not - these parks that have been bought out by the tenants, I heard in some cases that their rents are increased as well. Maybe it was because they had high-interest costs.

MR. VOTAPKA: That's the key. High-interest rate costs.

SENATOR MELLO: But have these rates gone up where the tenants have purchased the park?

MR. VOTAPKA: Certainly, but they probably won't go up any more than they would have gone up next year.

SENATOR MELLO: They will level off?

MR. VOTAPKA: They will level off, then that's where they will stay. That's the difference. And the real key is to get that interest rate at a figure that is not prohibitive. That's the key to the whole thing.

SENATOR MELLO: OK, Carl, thank you very much.

MR. VOTAPKA: Thank you so much. I appreciate your time. Thank you, too, John.

SENATOR MELLO: Next we have Maurice Priest, Executive Director of the Golden State Mobilhome Owners League, from Sacramento - a real expert.

MAURICE PRIEST: Mr. Chairman and members, I want to thank you, too, on behalf of GSMOL for considering this topic. Mention has been made this morning of Senate Bill 29, which has been introduced this year by Senator John Seymour. That bill would give park owners a capital gains tax break if they sell to the residents of their park. This bill was introduced in part after the Legislature rejected our earlier request for the right of first refusal. We thought that park owners who do sell to the residents, if they have a financial incentive to do so, perhaps they would take a more serious look and seriously consider their residents as a potential buyer for the park. Also you've heard testimony this morning about the delay that is caused if a park owner is willing to work with the residents. There is built-in delay due to governmental regulations that exist, and we thought it would be at least reasonable compensation to the park owners if they were given some type of tax break or incentive in exchange for the delay that it will take to close the deal if they work with residents.

We think that SB 29 is certainly one means of doing that, and we hope that we can count on support from the park owners' association because after all it is their membership that would be the direct beneficiaries. They would realize a tax advantage, but then our membership as well, the mobilehome owners, would be indirect beneficiaries and, hopefully, that would encourage more of the park owners to sell to them.

We realize that the state capital gains impact is only a small carrot. Last year we did have the assistance of Congressman Ron Packard from the Oceanside area, who amended a bill, HR 4170, in Congress, and this would have created at the federal level a federal capital gains tax break for park owners who sell to resudebts, Although that language was amended out last year, we are attempting at this time to have a similar bill introduced by Congressman Ron Packard and by other Congressmen from throughout the country.

One thing we will be doing this year with the federal goal is to work through the National Mobile-Manufactured Homeowners Foundation, of which GSMOL is a member. There are approximately a dozen states throughout the United States that have mobilehome owner-consumer groups similar to GSMOL and at their conference this year. The National Foundation has made it one of their top legislative priorities to individually and collectively through the Foundation urge Congress to pass a bill similar to California's SB 29. So we hope we'll have success in doing that this year.

Although Mr. Jerry Fisher of Mitchell Management could not be with us this morning, I have submitted to the committee a written statement from Mr. Fisher which spells out quite clearly some of the problems that he has faced as a consultant trying to assist mobilehome owners in the collective purchase of mobilehome parks. I won't restate what is contained in Mr. Fisher's report, but I would like to state that one of the items that he covers addresses the problem of mobilehome owners who are forced to deal with governmental red tape when the single investor or private investor on the outside would not confront similar problems.

One of the items addressed by Mr. Fisher would be a bill to exempt limited equity co-ops from the Subdivided Lands Act in California. I did participate about two months ago with Mr. Fisher in just a general meeting with the Department of Real Estate. There is a tremendous amount of paperwork that has to be completed by mobilehome owners if they are purchasing. In order for them to qualify for the Subdivided Lands Act, it's going to add tremendous cost to the purchase. Under the bill which we will be pursuing this year in the Legislature, we would seek an exemption for limited equity co-ops from the Subdivided Lands Act when mobilehome owners use that limited equity co-op as the vehicle to purchase their park.

SENATOR MELLO: Mr. Fisher's statement will be made part of the record and put into our transcript.

MR. PRIEST: Thank you.

SENATOR MELLO: Any questions?

MR. TENNYSON: Do you see those two issues you address - the Seymour bill and this problem with regard to the Subdivided Lands Law - as the more important issues in this area?

MR. PRIEST: I think they are. I think that we have to create an exemption for the Subdivided Lands Act in order to eliminate the built-in delay costs that are there now. Those will be two of the ideas we will be pursuing this year, and I think Assemblyman Frizzelle's bill was mentioned earlier, also Assemblyman Frazee's on getting the majority vote are also important parts of our package of bills to help mobilehome owners buy parks.

MR. TENNYSON: Do you foresee that a majority of the parks will be converted to limited equity type co-ops rather than other forms and that's why this proposal on the Subdivided Lands Law is addressed in that direction? Why are not other forms included in the proposal?

MR. PRIEST: This is one area that Mr. Fisher had looked at specifically and saw the problem. It may be in the future or even if this bill goes through, if there is a way that we can expand it to normal mobilehome park condominiums or subdivisions, that those might also be included. We realize that the Subdivision Law and the Subdivided Lands Act are there for a purpose, and that their intent may be to protect the consumer, but as it has been pointed out by some of the witnesses this morning, where you are dealing with a group of buyers who are familiar, very familiar, with the land they are purchasing and where they have lived for several years, what was once protection becomes the obstacle and we want to reach the happy balance there so the consumer does receive adequate protection but not to the extent that it prohibits them from purchasing the park.

SENATOR MELLO: OK. Thank you very much, Maury, for your testimony.

MR. PRIEST: Thank you.

SENATOR MELLO: We'll go back and call on those who were passed over. Jerry Stirnkorb? Did he arrive? (no reply). William French? (no reply). OK. Mr. Craig Biddle, did you want any testimony on behalf of the park owners?

<u>CRAIG BIDDLE</u>: No, we testified at the last meeting. You have our statements.

SENATOR MELLO: OK. Did you want to ask him any questions, John?

MR. TENNYSON: No.

SENATOR MELLO: OK, then we've exhausted our sign-up list. Anybody in the audience want to add to our hearing here today?

You are certainly welcome to testify. (no reply). No one is rising to the occasion so with that we want to thank all of you for coming here. I think there was some very valuable testimony presented here to the committee, and we'll see that all of these statements are going to be distributed to the committee members and the Legislature, and we're hoping we can do something in solving what I think is a real serious problem for our State of California, and provide ways in which residents of these parks can, in fact, form entities to purchase the park if that is their desire and also work in conjunction with the park owners, so with that we'll adjourn the meeting and thank all of you for coming.

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APPENDIX

SENATE BILL No. 484

Introduced by Senator Craven

February 20, 1985

An act to add Section 18114.1 to the Health and Safety Code, relating to registration fees for mobilehomes and manufactured housing, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

SB 484, as introduced, Craven. Mobilehome - manufactured housing registration fees.

Under existing law, an annual registration fee of $11 is required for each transportable section of a manufactured home, mobilehome, or commercial coach subject to registration. Existing law has also created the Mobilehome Park Purchase Fund to provide loans to resident organizations for the purpose of financing mobilehome park conversion costs. The fund is continuously appropriated.

This bill would impose an annual fee of $5 in addition to the annual registration fee for each transportable section of a manufactured home or mobilehome subject to registration, which is an increase in state taxes requiring a ⅔ vote of all of the members elected to each of the houses of the Legislature. The increased revenues would be placed in the Mobilehome Park Purchase Fund. By placing additional revenues in this continuously appropriated fund, this bill would also make an appropriation.

Vote: ⅔. Appropriation: yes. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 18114.1 is added to the Health and Safety Code, to read:

18114.1. In addition to the annual registration fee required by Section 18114, an annual fee of five dollars ($5) shall be paid to the department at the time of registration or renewal for each transportable section of a manufactured home or mobilehome registered pursuant to this part. All revenues derived from this fee shall be deposited in the Mobilehome Park Purchase Fund provided for in Chapter 11 (commencing with Section 50780) of Part 2 of Division 31.

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ASSEMBLY BILL No. 534

Introduced by Assembly Member Frizzelle

February 4, 1985

An act making an appropriation, relating to mobilehome parks.

LEGISLATIVE COUNSEL'S DIGEST

AB 534, as introduced, Frizzelle. Mobilehome parks.

Existing law authorizes the California Housing Finance Agency to make loans to nonprofit corporations, stock cooperative corporations, or other specified entities organized by the tenants of mobilehome parks for the purpose of converting a mobilehome park to condominium or stock cooperative ownership interests and for purchasing the mobilehome park from the management of the park.

This bill would appropriate $50,000,000 to the agency for deposit in the Mobilehome Park Acquisition Fund to be utilized by the agency for making loans under the above program. The bill would specify that the appropriation is a loan to the agency and would require the agency to repay that loan in accordance with a specified schedule.

Vote: ⅔. Appropriation: yes. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. (a) The sum of fifty million dollars ($50,000,000) is hereby appropriated from the General Fund to the California Housing Finance Agency for deposit in the Mobilehome Park Acquisition Fund created pursuant to Section 50566 of the Health and Safety Code and utilized for purposes of Chapter 4.5

(commencing with Section 50560) of Part 2 of Division 31 of the Health and Safety Code. This sum is a loan to the California Housing Finance Agency and shall be repaid to the General Fund in five equal installments commencing on July 1, 1987, and each July 1 thereafter to July 1, 1991, inclusive.

(b) The following amounts shall be deposited in the General Fund on the dates specified in subdivision (a) and shall be a credit against the amount of the installment payment due pursuant to subdivision (a) on that date:

(1) All interest earned by the agency on the investment of all or any part of the appropriation made pursuant to subdivision (a).

(2) All interest payments received by the agency pursuant to Section 50563 of the Health and Safety Code during the prior fiscal year except that the payment required to be made on July 1, 1987, shall include all interest payments received between January 1, 1986, and June 30, 1987.

(3) All loan fees collected by the agency in excess of the amount needed by the agency to cover the administrative costs of administering Chapter 4.5 (commencing with Section 50560) of Part 2 of Division 31 of the Health and Safety Code, as determined by the agency.

O

United Housing & Bonding Consortium
2260 Clove St. San Diego, CA 92106 (619) 222-9552

January 16, 1985

The Honorable Fortney H. Stark
House of Representatives
1136 Longworth Building
Washington D. C. 20515

The Honorable Fortney H. Stark

On behalf of several thousand Mobilehome Owners, the governments of many of our nation's Counties and Cities, and the United Housing and Bonding Corsortium, we request your assistance in changing recently Federally enacted restrictions for granting tax exempt status for certain bond obligations.

A very sensitive social and political problem exists in the United States of America where people of low and moderate income levels are being squeezed out of affordable housing by ever increasing rents. In an attempt to find a fair and equitable solution to this problem in Mobilehome Parks, United Housing and Bonding Consortium proposed to the City of Escondido, California, as a test case that they participate in the sale of Mobilehome Parks to the tenants through issuance of tax-exempt bonds. Bonds issued through a Community Development Commission would finance the purchase of the Mobilehome Parks from the existing landlords. Tenants would be able to purchase their space from the commission, the bonds being repaid by the principle and interest payments of these loans, resulting in no debt to the City or pledging of the City's General Fund.

Due to the current high interest rates of conventional lenders, low and moderate level income purchasers need the lower interest rates afforded by the tax-exempt bonds to approximate their current cost of housing. This proposal received wide acceptance of elected City officials, Mobilehome Park owners, Mobilehome tenants and their associations. Eleven Cities and two Counties had contacted United Housing and Bonding Consortium to introduce this plan to them. However, Congress, by actions reported in the Congressional Record, June 22, 1984, has broadly restricted the ability to use tax-exempt bonds. The Consortium's Bond Counsel believes and staff attorneys for the Internal Revenue Service have agreed that bonds issued under this proposal would probably be denied tax-exempt status.

It appears that it is necessary for the Senate Committee on Finance and the House Committee on Ways and Means to clarify this issue or enact changes to allow bonds for this purpose to receive tax-exempt status.

We have enclosed a sample presentation of the proposal to the City of Escondido, California and related newspaper articles and editorials to provide additional information. We have also included a copy of the Act that restricts the granting of tax-exempt status for bonds under this proposal. A suggested change to the Act is also enclosed.

This proposal is a very positive solution to increasing costs of housing for persons of low and moderate levels of income. We respectfully request your participation in bringing this solution to such a needy problem.

Respectfully yours,

James N. Durkin

James N. Durkin
President

JND:m

PART III -- OTHER RESTRICTIONS

SECTION 103 DENIAL OF TAX EXEMPTION TO CONSUMER LOAN BONDS

(a) IN GENERAL -- Section 103 (relating to interest on certain governmental obligations) is amended by adding at the end thereof the following subsection:

"(o) CONSUMER LOAN BONDS --

"(i) DENIAL OF TAX EXEMPTION.-- For the purpose of this title, any consumer loan bond shall be treated as an obligation which is not described in subsection (a)

"(2) CONSUMER LOAN BONDS--For the purpose of this subsection--

(A) IN GENERAL-- the term "consumer loan bond" means any obligation which is issued as part of an issue all or a significant portion of the proceeds of which are reasonably expected to be used directly or indirectly to make or finance loans (other than loans described in subparagraph(C) to persons who are not exempt persons (within the meaning of subsection (b)(3).

"(B) EXCLUDED OBLIGATIONS,-- The term "consumer loan bond" shall not include any--

"(i) qualified student loan bonds,

"(ii) industrial development bond, or

"(iii) qualified mortgage bond or qualified veterans mortgage bond.

"(C) EXCLUDED LOANS.-- A loan is described in this subparagraph if the loan--

"(i) enables the borrower to finance any governmental tax of assessment of general application for an essential governmental function, or

"(ii) is used to aquire or carry nonpurpose obligations (whithin the meaning of subparagraph (c)(6)(G)(i).

SUGGESTED CHANGES TO ACT

We submit that the problem could be eliminated by adding to "(B) EXCLUDED OBLIGATIONS" the following:

> "(iv) Bonds issued by a redevelopment agency or Community Development commission, the proceeds of which are used to acquire land and improvements for resale to individuals for non-business purposes.

Another possibility is: to name Mobilehome owners purchasing their space "Exempt Persons".

TIMES-ADVOCATE, Escondido, Ca., Friday, Nov. 23, 1984

T-A Editorial

Mobile-home milestone

Doris Thurston, the Escondido city councilwoman, was so confident about her mobile-home plan she predicted her colleagues would approve it "because we can't find any other way to improve on it."

She was right. With little comment, the City Council decided last week to get into the mobile-home park business. It will float low-interest tax-exempt bonds to buy parks from owners who want to sell and then sell the lots back to the tenants who want to buy. It will give mobile-home park tenants the ultimate guarantee that they won't be "gouged" by greedy landlords — because they will be their own landlords.

Considering how emotional the debate has been over past proposed solutions to mobile-home problems, it is amazing that Thurston has been able to pull this off so quietly. Last June's acrimonious debate over Escondido's mobile-home rent control initiative was among the most expensive and controversial in city history. The initiative was soundly defeated.

But Thurston was right. We don't see much wrong with the plan and can't find any other way to improve on it.

She is plowing new ground here. There have been city-sponsored conversions of mobile-home parks in California, but nothing that could end up on such a grand scale. If all 32 of the city's parks opt for the conversion — or even most — the program could provide a model for other cities which face similar problems. The bonds will use some federal money, and they could use money generated by Escondido redevelopment, some of which must be used for low-income housing.

We're not sure all the taxpayers would want to be saddled with extensive property management, but the program is designed to be self-sufficient and to get the city back out of the park rental business as soon as possible. The lease payments from those who don't buy their lots will go toward paying off the bonds.

The idea is the brainchild of a consortium of housing and bonding professionals from throughout Southern California. The consortium was put together by Carl Votapka, a member of the city's Mobile-home Assistance Program and a former member of the Mobile-home Accord Committee, and committee member Jim Durkin, owner of The Views mobile-home park.

The bonds are expected to carry interest rates of 10.25 percent to 10.75 percent, a good rate in today's housing market. They will be underwritten by Shearson Lehman/American Express Inc., a member of the consortium.

There is one mobile-home park in Escondido in which the tenants own their own lots. It was built that way. Another such park is about to be built. But in the other parks the tenants remain at the mercy of their landlords — and there are times when the landlords don't show much mercy. In an apartment, it is fairly easy to toss your belongings into a truck and move to a cheaper place when you think the rents have surpassed your limits. In a mobile home, the move costs thousands of dollars, and there are few — if any — places to move.

Thurston's plan is the best solution we've seen. We've never been convinced the city should get into the business of regulating rents, but if it can help in this way — and get out of the business quickly — it would be a wonderful public service.

There are details that still need be worked out, but they seem relatively minor. "I think if we can achieve this," said Thurston, "we will have reached a milestone." It seems we're already there — with the finish line in sight.

Escondido answering rent question

BULK RATE
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By Mary Jane Morgan
Courier Staff

ESCONDIDO — This city is considering its own self-described form of rent control — helping mobile home owners buy out their lots in local mobile home parks.

Offered as an alternative to uncertain, escalating space rents, the unique plan was unveiled here this week before the council-sponsored Mobilehome Assistance Program (MAP) committee in a press conference at the Joslyn Senior Center.

Its innovators, the United Housing and Bonding Consortium (UHBC) of San Diego propose the city council create a Community Development Commission composed of council members to issue tax free bonds, using the money at low interest rates (10 and a half percent) for residents to purchase their own lots.

Thought to be a first in the state and perhaps the nation, the public-private conversion plan now goes to the city council, after months of behind-the-scenes organization.

"I can assure you it will be ratified because we don't see how it can be improved on," said Councilwoman Doris Thurston, chairperson of MAP and advocate for solving community mobile home rent problems.

She felt the plan was a "milestone — a vehicle for affordable housing."

A FIRST FOR EVERYTHING — Unveiled Tuesday morning in Escondido was a mobile home park conversion plan incorporating the city council as a housing agency. At the session were (from left) Councilman Jim Rady, Carl Votapka, Councilwoman Doris Thurston and James Durkin.

Photo by Mary Jane Morgan

Price tag of the new venture is uncertain, except supporters emphasize conversions costs would come not from city coffers, but instead from down payments, mortgage repayments and possible assessments from redevelopment funds, if all else fails. The bond sale would be underwritten by Shearson Lehman/American Express.

Ownership would be condominium, air space subdivision with each resident who purchases having title to his own space.

In the prospectus under consideration, the average lot in the city (with five to seven spaces per acre) would sell for $30,000.

Initial costs would be born by participating park owners, reports James N. Durkin, owner of The Views mobile home park (152 spaces) and president of the consortium which includes representatives of bond financing; municipal, redevelopment and housing law; subdivision map preparations and processing; title insurance and property management. He was chairman of the Escondido Citizens for Better Housing, a group spending over $100,000 to successfully defeat Proposition "G" (a mobile home rent control initiative) on the June primary ballot.

That experience, he said, gave him renewed faith for the new project, because "I found

Turn to Page 2

Mobile Homes Courier
Vol. 11, No. 43 Friday, November 16, 1984 189 S. Rancho Santa Fe Rd. San Marcos, CA 92069

Judge blasts San Marcos Rent reviews

And many happy returns, Ionia Whinkey

Escondido lot buy-outs

From Page 1--

mobile home owners didn't want rent control either."

Pleased with the attempt was Marie Malone, state vice-president of the Golden State Mobilhome Owners League (GSMOL) and chairperson of the organization's resident operated park plans, "Buy it, least it, build it."

"If it succeeds in Escondido, there are many cities that will follow," she predicted. "I've never seen anything put together as well — as this multi-park conversion."

Also on the consortium is Carl Votapka, a member of the MAP group and the community's voluntary accord negotiation process. He is a former member of GSMOL's conversion committee and a mobile home owner at one time of Imperial Estates, recently moving to an apartment.

Other members include Steven A. Harrington of Union Land Title Co. which assisted in the conversion of Park Encinitas, one of the first resident buy-outs in San Diego County; and Bert Caster of Caster Management Corp. of El Cajon whose firm would be responsible for on-going management services, including the collection of mortgage and rent payments, staffing, park maintenance and repair.

Also Douglas L. Charchenko with American Express who has been working the past two months with Standard and Poors to seek a rating of A or better on the bonds; David R. McEwen, attorney with Stradling, Yocca, Carlson and Rauth bond counsels; and Frank J. Spevacek, with Rosenow Spevacek Group, housing, redevelopment and community planning.

BULLETIN — With no discussion, the Escondido City Council Wednesday night ratified United Housing and Bonding Consortium's proposal for mobile home park conversion services and directed staff to draw up the proper documents including the necessary ordinances.

A number of supporters, including many mobile home resident owners and officials of resident associations attended.

Residents who prefer not to buy and continue living in their parks under a lease, with future rent increases set by the commission, according to Durkin.

A typical example of the program using his park's figures for an average lot worth $30,000 with a $3,000 down payment (10 percent) and financing for 30 years at 10 and a half percent interest would make a monthly payment of $308.05, including property taxes and a $40 monthly association fee. If federal income tax deductions (in the 21 percent bracket) for property taxes and mortgage interest are figured in, the total monthly adjusted cost could be $261.55 per month.

In Escondido, one mobile home park, Vill Madeira, was built as a rental park but converted during construction to resident ownership. Another, Citrus Gardens, was built by mobile home owners as a mobile home subdivision. And a third, Via Verde Estates, is about to be built.

So far, Durkin said, five park owners have indicated willingness to participate and six more expressed interest. Currently the city has 32 mobile home parks, including those for trailers and recreational vehicles.

First step in the plan would be the establishment of the new CDC agency with the combined powers and authority of a redevelopment agency and a housing authority. Next would be valuations of the parks and each space by a city-appointed MAI appraiser, followed by purchase agreements between the commission and the park owners.

Municipal bonds would be issued to cover the price through a "friendly condemnation" proceedings, which allows property owners to use their money for three years without paying capitol gains taxes.

Lots would be offered to residents at the appraised prices, which vary from space to space. Those unable to raise the down payment would be eligible for help from state and local programs, according to Malone.

The debt will be serviced by monthly mortgage payments and rental spaces, with a self-insurance pool backup created by the downpayments (10 percent of the purchase price), owner holdback, (five percent of the sales price), as a final backup downtown redevelopment project area's 20 percent housing funds and community development block grants.

Residents appeared concerned over possible purchase prices, particularly parks resold recently with large profits to the owners.

"That's not an issue," said Durkin. "Don't worry about that. The question is what you would have to pay year after year if yu're renting."

Councilman James Rady noted that "if I had to pay 87 percent interest on money to earn $1 million, I'd do it."

Still unclear at this point is the management once the spaces are subdivided and sold to residents. The consortium's prospectus calls for providing on-going property management and mortgage services by Caster.

The program will work, organizers say, even if a majority of mobile home owners decided not to buy. Their rents would cover their share.

"We're not too sympathetic with those who refuse to participate (park owners) or buy (park residents)," Durkin said.

A staunch supporter of "free enterprise," Durkin reminisced that since 1977 he had been "regularly appearing before the city council and praying they didn't pass rent control." The plan, he suggested, is "rent control — the best type."

Although Escondido voters and the council majority have turned down rent control in the past, the conversion packet will place elected officials as a rent commission for setting prices on the unsold leased spaces.

United Housing & Bonding Consortium

2260 Clove St. San Diego, CA 92106 (619) 222-9552

November 5, 1984

City of Escondido
100 Valley Boulevard
Escondido, California 92025

PROPOSAL FOR MOBILE HOME PARK CONVERSION SERVICES

Honorable Mayor and Members of the City Council:

United Housing and Bonding Consortium is pleased to submit the following proposal for mobile home park conversion services. This proposal outlines our services and qualifications, and presents a innovative solution to one of today's most pressing problems - providing affordable housing opportunities to tenants of mobile home parks.

The Consortium was formed to address the various facets of mobile home park conversions. It represents a comprehensive blending of professional capabilities in the fields of bond financing; municipal, redevelopment, and housing law; subdivision map preparation and processing; title insurance; mobile home park owner and tenant relations; and property management. We believe that this integrated, interdisciplanary approach has the greatest potential for success in converting mobile home parks to mobile home subdivisions in Escondido.

We look forward to further discussing this proposal at your November 14th meeting. Should you have any questions regarding this proposal or our qualifications, please do not hesitate to contact me.

Sincerely,
United Housing and Bonding Consortium

James N. Durkin
President

JND:FJS:cm

Attachment

OVERVIEW

During the past 6 months the Consortium, comprised of legal, financial, bond and real estate consultants, has been exploring solutions to the problem of escalating mobile home park rents. Our goal was to create a vehicle that facilitates park conversion to tenant ownership at monthly payments that approximate current market rental rates. As a result of this effort, we have designed a program whereby using the tax exempt status of governmental agencies, bonds are issued to provide below market rate mortgage funds for mobile home park space ownership.

The Consortium has met with mobile home park owners, with members of various City Staffs and Councils, and with representatives from the Golden State Mobile Home Owners League. Our proposal has been reviewed and discussed by all of these parties and, we believe, that this has resulted in a workable program that addresses park conversion issues.

THE GROWING PROBLEM

Continued economic growth in California has contributed to an increasing demand for housing. This has resulted in escalating real estate values for owners, escalating prices for buyers and, ultimately, escalating rents for renters.

Mobile home park tenants have become increasingly concerned over the rapid increase in rental fees. As one solution to this problem, many mobile home parks residents and their state association, The Golden State Mobile Home

Owners League, have endeavored to find a way to enable residents to purchase their own spaces, thereby fixing their housing costs. Most current attempts to convert parks and to purchase spaces are failing, however, due to the current high interest rates which result in unaffordable monthly mortgage payments. In order for tenant purchases to be a workable solution to stabilize housing costs, a method must be found to enable tenants to purchase their spaces at lower interest rates and corresponding lower monthly mortgage payments.

OUR SOLUTION

The program designed by the Consortium involves a public/private partnership to address the affordability problem of mobile home park conversions. Utilizing the Community Development Commission authority, a City participates in the sale of the mobile home parks to the tenants through the issuance of tax-exempt bonds. Bond proceeds finance the purchase of the mobile home park from the existing park owner. The bonds would not be debt of the City nor would the City's General Fund be pledged to service the debt. The following summarizes our approach.

Community Development Commission. The first step invloves establishing a Community Development Commission. Authorized under the California Community Redevelopment Law, the Commission (comprised of the City Council) combines the powers and authority of a redevelopment agency and a housing authority under a single operating entity. Establishing a Commission affords greater flexibility in structuring the bond issue.

MAI Appraisal/Purchase Agreements. A MAI appraiser, selected by the City, is retained to establish the value of each park as a mobile home subdivision. The appraisal is used to set the purchase price for the park and the sales price for each space.

Upon completion of the appraisal, a purchase agreement is negotiated between the Commission and the current park owner. In order to procure the tax exempt status for the bond issue, the Commission must serve as the vehicle for the purchase and resale of the parks. Thus, the Commission purchases the parks and resells them to the tenants.

Bond Issue. The total appraised value of the park plus the cost of issuance determines the size of the bond issue needed to finance this transaction. The Commission issues tax exempt bonds whose proceeds are used to purchase the mobile home parks. In order to make the sale of the park spaces affordable to existing tenants and to achieve our goal of a monthly ownership cost that is approximately equal to current rental rates, the cost of mortgage funds must be lower than the existing market rate. The best vehicle to achieve this end is tax-exempt government bonds.

Debt is serviced by the monthly mortgage payments made by the new space owners. Traditionally, private mortgage insurance is used to secure residential mortgages. In this case, however, it cannot be employed since these mortgages fund the purchase of undeveloped land rather than developed housing. In order to provide a form of mortgage insurance which is needed to obtain a commercial grade rating for the bonds, a self-insurance pool or fund is created to secure the mortgages. The pool is funded from the following sources:

1. Downpayments - 10% of the purchase price

2. Owner holdback - 5% of the sales price

3. Redevelopment 20% Housing Funds

4. Community Development Block Grant Funds.

By creating a self-insurance fund, Standard and Poors (S&P) will consider providing a commercial grade rating of A or better for the bonds which is necessary to obtain a workable interest rate.

Comparison of Monthly Payments. Table 1 presents an analysis of estimated monthly payments for space ownership. The pro forma outlines principal and interest cost for loans originated at 10.25%, 10.50% and 10.75%; monthly association fees and property taxes; and monthly savings resulting from property tax and interest deductions from income tax.

Table 2 presents an analysis of one program, entitled Grannie Mae, the Consortium developed to service park tenants who are unable to purchase their space. Under this program the space would be purchased by the tenant's children and rented back to them on a monthly basis. The property qualifies as a rental, and depreciation, association fees, property taxes and interest can be deducted from their income taxes.

TABLE 1

MOBILE HOME LOT OWNERSHIP FINANCIAL ANALYSIS

	INTEREST RATE @ 10.25%	INTEREST RATE @ 10.50%	INTEREST RATE @ 10.75%
Purchase Price (average)	$ 30,000	$ 30,000	$ 30,000
Initial Investment	3,000	3,000	3,000
Loan Amount	27,000	27,000	27,000
Term of Loan (years)	30	30	30
Payment	242.19	247.05	252.18
<u>ESTIMATED MONTHLY PAYMENT</u>			
Principal	$ 19.36	19.76	20.17
Interest	223.83	227.29	232.01
Taxes	21.00	21.00	21.00
Association Fee	40.00	40.00	40.00
Monthly Total	304.19	308.05	313.18
<u>ESTIMATED DEDUCTABLE ITEMS (INCOME TAX)</u>			
Interest	$ 223.83	227.29	232.01
Taxes	21.00	21.00	21.00
Monthly Total	244.83	248.29	253.01
<u>ESTIMATED MONTHLY SAVINGS</u>			
Total Deductions	$ 244.83	248.29	253.01
Estimated Federal Tax Bracket	21%	21%	21%
Total Tax Savings	51.41	52.14	53.13
<u>ESTIMATED MONTHLY ADJUSTED COST</u>			
Total Monthly Investment	$ 304.19	308.05	313.18
Less Estimated Monthly Tax Savings	51.14	52.14	53.13
Less Lot Rental	261.55	261.55	261.55
Less Mobilehome Payment	0	0	0
Total Adjusted Monthly Cost	<8.77>	<5.64>	<1.50>

SOURCE: United Housing and Bond Consortium

TABLE 2

MOBILE LOT OWNERSHIP FINANCIAL ANALYSIS - GRANNIE MAE PROGRAM

	INTEREST RATE @ 10.25%	INTEREST RATE @ 10.50%	INTEREST RATE @ 10.75%
Purchase Price (average)	$ 30,000	$ 30,000	$ 30,000
Initial Investment	3,000	3,000	3,000
Loan Amount	27,000	27,000	27,000
Term of Loan (years)	30	30	30
Payment	242.19	247.05	252.18
ESTIMATED MONTHLY PAYMENT			
Principal	$ 19.36	19.76	20.17
Interest	223.83	227.29	232.01
Taxes	21.00	21.00	21.00
Association Fee	40.00	40.00	40.00
Monthly Total	304.19	308.05	313.18
ESTIMATED DEDUCTABLE ITEMS (INCOME TAX)			
Interest	$ 223.83	227.29	232.01
Taxes	21.00	21.00	21.00
Depreciation[1]	81.00	81.00	81.00
Association Fees[1]	40.00	40.00	40.00
Monthly Total	365.83	369.29	374.01
ESTIMATED MONTHLY SAVINGS			
Total Deductions	$ 365.83	369.29	374.01
Estimated Federal Tax Bracket	35%	35%	35%
Total Tax Savings	128.04	129.25	130.40
ESTIMATED MONTHLY ADJUSTED COST			
Total Monthly Investment	$ 304.19	308.05	313.18
Less Estimated Monthly Tax Savings	128.04	129.25	130.40
Less Lot Rental	261.55	261.55	261.55
Less Mobilehome Payment	0	0	0
Total Adjusted Monthly Cost[2]	(85.40)	(82.75)	(79.27)

1 $30,000 x 65% = $19,000 ÷ 20 yrs. = $975 ÷ 12 mo. = $81.25

2 Figures in () indicate savings to owner leasing lot to parent.

SOURCE: United Housing and Bond Consortium

Mitchell

Mitchell Management Co.
615 Ash Street
San Diego, California 92101
619/239-9641

February 1, 1985

Senator William A. Craven
38th Senate District
State Capitol - Room 3070
Sacramento, CA 95814

Dear Senator Craven:

Due to the shortage of time, I believe this letter will cover the points I wish to make for your announced SENATE SELECT COMMITTEE ON MOBILE HOMES, which is scheduled to convene on February 11, 1985.

Our company has been in existence since 1926, and I personally have over 25 years of real estate experience in the field of finance, development, conversion and management. We are currently involved, in one manner or another, with approximately 30 parks. In any given month there is also an additional two to five parks that contact our office for help or education in the so called "conversion" process. This by no means makes us necessarily an expert but allows us to rub elbows with the real live problem of the residents in their pursuit of dealing with the ever raising rent problem. Some of the major problems that we see and suggested solutions are as follows:

1. FINANCING - The California savings and loan industry is the largest source of funds for the financing of a park acquisition. The market place demands high rates (12% to 14% currently) and even with an adjustable rate situation or a low market "payment rate" the necessity to support this financing by additional rent raises is an unfortunate fact of life. Raising rent to support the income of lender is no less onerous than the raising of rents to support return on equity that is also part of the American system.

   SOLUTION: State administered "bond" financing. This will bring the rate down to more manageable levels, fix it, and provide amortization over a 25 to 30 year period, which is not available in the market place today. In order to have a strong success rate, this financing should follow general accepted lending practice and not exceed 80% loan to value.

2. DOWN PAYMENT - There are several programs provided through HCD that help in this area. However, due to the shortage of funds in these programs and the length of time necessary to obtain what funds there are, it is more of window dressing than it is a practical help in the market place.

   Example: There are approximately 5,000 or 6,000 parks in the State of California but the funds cumulatively available to help in any given situation can probably cover only three to five parks at best. In some ways these programs cause more harm than they provide help, in that there is a tremendous expectation built up by the residents that there are funds available, when in fact they are so limited or time consuming to obtain to be of no value at the negotiating for a park.

   SOLUTION: Pooled funds similar to the "mortgage backed" bond situation, as described above, using the coach as collatoral, rather than the land. This type of loan generally funded by the banking institution as "consumer loans" brings them 15% to 19% interest rates. This rate, coupled with a short amortization, makes this type of funding neither feasible nor affordable. A higher rate is probably a proper underwriting posture but as a bond can attract investors in the 10% to 12% range and given longer amortization, definitely be a useful tool for a good number of the residents.

3. REGULATORY AGENCIES - Every person sitting in this hearing has the ability to form a corporation (a day or two of time) and purchase a mobile home park. This ability to deal in an immediate fashion with a seller or owner of a park brings buyer and seller together in great abundance. However, the residents of the park, who are the subject of this hearing, are not allowed this luxury. The State, in its great wisdom to "protect" the mobile home residents, has built a wall of regulations around them that all but prohibits their ability to enter the market place and purchase their park, as you and I in this room can do. What are those regulatory agencies?

   (a) The Corporations Commissioner. Since there is going to be a large number of stock holders, in the case of a park, as opposed to those of us in the room, a very lengthy and laborious time delay is handed the residents (6 months±).

(b) The Map Act. This is administered by the City or County that the park is located within. The Pandora's Box of panels, agencies, ordinances, fees, and untold rules and regulations, make dealing with this situation in time, from approximately 6 months to a year to never.

(c) Subdivision Lands Law. This is administered by the Department of Real Estate and generally requires that the time delay of the Map Act be gone through before the approach to the Department of Real Estate. Assuming you have gotten this far, it would take another 6 months to get the approval of this Department. Under existing law, the act of a group of people coming together to lease, finance or purchase a piece of property is considered "subdividing" in the eyes of the state and thus this regulation. The Department of Real Estate of course will defend their position, as all of the other agencies will also, in that they are "protecting" the residents from the unscrupulous "developer" or what have you. In this given case, the residents find themselves being protected... from themselves...thus you have an interesting Catch 22 situation. There are already ample laws on the books to cover against fraud, misrepresentation, loan disclosure laws, all of which are the things this agency in a redundancy fashion is performing.

SOLUTION: The Limited Equity Co-Op has found itself the donkey that everyone pins their tail on. In this writer's opinion it does not really do at all in the market place what it is designed to do. However, it is the form of corporation that apparently has enjoyed exemptions from the regulatory agencies, above described, and thus appears to be with us for awhile. The Limited Equity Co-Op, (LEC) appears to be exempt from the SEC and Corporation Commissioner regulations when used in a mobile home park purchase situation. The LEC is also exempt from the Map Act, so is able to by-pass a very serious hurdle. It is not exempt from the DRE regulations however. Enclosed is a draft of proposed regulations that will cover this last hurdle. I strongly urge its immediate adoption.

Please note that there is a "rider" that is necessary to clean up the only champion of the mobile home residents, the LEC, and that is making it available for the various HCD programs that are available by the state but inadvertently had made them not available to the LEC program.

4. INCENTIVES TO SELLER. The ownership of a mobile home park as an investment has proven to be without a doubt one of the best around. In all areas of return to an investor, i.e., cash, depreciation, and appreciation, the mobile home park generally will out perform the more recognized form of real estate ownership, such as apartment buildings, office buildings and shopping centers. It is a very well established fact that the combination of these three areas of return, averaged over a five to seven year holding period, should bring the investors at least a 50% return on his investment.

All of the things that would normally be considered a negative in the eyes of the investment community such as, rent control, high cost loans, irrate tenants, public policy, is just not enough to deter the scramble for any park that comes into the market place. Almost universally a deal is struck within the first 30 days, with the owner sifting through at least 7 to 10 bids and re-bids before making a decision.

Bringing 100 to 300 families together in a common mind, to decide that they wish to pursue a purchase of their own park, is a monumental task in itself. I do not see a solution provided by the State, however, it is a problem that should be noted.

The problems the State can address, as outlined above, are to recognize the impossibility to compete in the market place for their park.

I am addressing just the time issue. The owner and sellers of mobile home parks are aware of these stumbling blocks and have absolutely no interest, desire, nor incentive to waste their time dealing with the resident. He can snap his fingers and open and close a deal before the residents have their first park meeting.

Mitchell

SOLUTION: On the basis of providing and enhancing the housing stock of affordable housing in the state, I would suggest an incentive for the owner of mobile home parks to sell to the residents. There is a bill floating around somewhere that the capital gains can be dealt with in a more favorable manner but I am personally not so sure that this would be incentive enough. I am going to suggest that we pick from the condemnation laws and allow an owner who sells to the residents to have a two year period for the reinvestment of the sale funds before he is subject to any capital gains tax. This would not diminish any funds normally coming to state and federal governments, i.e., sales tax or capital gains tax, but provides the owner breathing room for reinvestment analysis and takes away the requirement of a trade property to make a deal. The election to retain cash and pay the capital gains tax would reside with the seller but he would have a two year window of time to make that election.

SUMMATION:

In order of importance, items #3 and #4 must stand together and one without the other would be like furnishing 3 of the necessary 4 tires of a car. Next in importance would be the financing of the down payment. The most used alternative to the outside funds proposed is looking to the more affluent in a given park to help in this regard. This one and only alternative is not always able to come to the rescue. The blanket financing, for approximately 80% of the purchase price, is certainly a large ticket item, however, private enterprise does provide those funds, albeit they are quite expensive. Therefore, it is considered 4th in importance to the above.

I appreciate the opportunity to provide this information and will make myself available to any and all questions, at your request.

Respectfully submitted,

MITCHELL MANAGEMENT COMPANY

Gerald W. Fisher, President

GWF:jm

LEGISLATIVE COUNSEL'S DIGEST

Bill No.

as introduced, Bates.

General Subject: Subdivided lands: limited-equity cooperative.

Under existing law, a limited-equity housing cooperative, as defined, is subject to those regulatory provisions of the so-called "Subdivided Lands Law" pertaining to stock cooperatives, unless the limited-equity housing cooperative meets specified criteria for exemption from such regulation.

This bill would exempt from such regulation a cooperative created by the conversion of a mobilehome park to a limited-equity cooperative.

The bill would take effect immediately, as an urgency statute.

Vote: 2/3. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

An act to amend Section 11003.4 of the Business and Professions Code, relating to housing, and declaring the urgency thereof, to take effect immediately.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 11003.4 of the Business and Professions Code is amended to read:

11003.4. (a) A "limited-equity housing cooperative" is a corporation which meets the criteria of Section 11003.2 and which also meets the criteria of Section 33007.5 of the Health and Safety Code. Except as provided in subdivision (b) or (c), a limited-equity housing cooperative shall be subject to all the requirements of this chapter pertaining to stock cooperatives.

(b) A limited-equity housing cooperative shall be exempt from the requirements of this chapter if the limited-equity housing cooperative complies with all the following conditions:

(1) The United States Department of Housing and Urban Development, the Farmers Home Administration, the National Consumers Cooperative Bank, the California Housing Finance Agency, or the Department of Housing and Community Development, alone or in any combination with each other, or with the city, county, or redevelopment agency in which the cooperative is located, directly finances or subsidizes at least 50 percent of the total

construction or development cost; or the real property to be occupied by the cooperative was sold by the Department of Transportation for the development of the cooperative and has a regulatory agreement approved by the Department of Housing and Community Development for the term of the permanent financing, notwithstanding the source of the permanent subsidy or financing.

(2) No more than 10 percent of the total development cost is provided by purchasers of membership shares.

(3) A regulatory agreement has been duly executed between the recipient of the financing or subsidy and one of the federal or state agencies described in paragraph (1) which covers the cooperative for a term of at least as long as the duration of the permanent financing or subsidy, notwithstanding the source of the permanent subsidy or financing. The regulatory agreement shall make provision for at least all of the following:

(A) Assurances for completion of the common areas and facilities to be owned or leased by the limited-equity housing cooperative, unless a construction agreement between the same parties contains written assurances for completion.

(B) Governing instruments for the organization and operation of the housing cooperative by the members.

(C) The ongoing fiscal management of the project by the cooperative, including an adequate budget, reserves, and provisions for maintenance and management.

(D) Distribution of a membership information report to any prospective purchaser of a membership share, prior to purchase of that share. The membership information report shall contain full disclosure of the financial obligations and responsibilities of cooperative membership, the resale of shares, the financing of the cooperative including any arrangements made with any partners, membership share accounts, occupancy restrictions, management arrangements, and any other information pertinent to the benefits, risks, and obligations of cooperative ownership.

(4) The federal or state agency named in paragraph (1) which executes the regulatory agreement shall satisfy itself that the bylaws, articles of incorporation, occupancy agreement, subscription agreement, any lease of the regulated premises, any arrangement with partners, and arrangement for membership share accounts provide adequate protection of the rights of cooperative members.

(5) The federal or state agency shall receive

from the attorney for the recipient of the financing or subsidy a legal opinion that the cooperative meets the requirements of Section 33007.5 of the Health and Safety Code and the exemption provided by this section.

(c) A limited-equity housing cooperative created by the conversion of a mobilehome park to a limited-equity cooperative form of ownership shall be exempt from the requirements of this chapter.

~~(c)~~

(d) Any limited-equity cooperative which meets the requirements for exemption pursuant to subdivision (b) or (c) may elect to be subject to all provisions of this chapter.

~~(d)~~

(e) The developer of the cooperative shall notify the Department of Real Estate, on a form provided by the department, that an exemption is claimed under this section. The Department of Real Estate shall retain this form for at least four years for statistical purposes.

SEC. 2. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

The opportunity for conversion of many mobilehome units, which are currently rented, to cooperative ownership, will be irrevocably lost unless regulatory delay is minimized.

- 0 -

Vista Royalodge Mobile Estates
1010 E. Bobier Drive, Space #73
Vista, California 92083
February 2, 1985

Senate Select Mobile Home Committee
Sacramento, California

RE: FINANCING RENTAL MOBILE HOME PARK CONVERSIONS TO RESIDENT HOMEOWNER OWNERSHIP.

Dear Ladies and Gentlemen:

We take the liberty of offering for your consideration at the forthcoming hearing of your committee, a financing approach to assist tenants in the acquisition of their parks.

As you are well awear, approximately 86% of the populace who want to be a first time conventional home buyer do not even qualify for the loans, they are from the working force with accelerating incomes.

That is distressing and perplexing enough, but our proposal is directed to assist the far more distressed stratum of the fixed low income elderly who want to stabilize their future monthly expenses by owning the mobile home lot on which they presently live.

Again, as you are awear, there are a million plus residents at an average age of 66 years in some 6000 parks in California. Their overall income is about 54% (under $12,000) of the State-wide medium income, within that low bracket there are those, in an ample number, who represent a despairingly lower income level.

It is that category of park residents to which we first address our proposal.

Ultimately the results of this portion of the proposal would be at no cost to the State (tax payer) and funds out would be secured with tangible developed land not depreciable property. In effect, it may seem to appear as as investment with a 100 plus percent return.

At the time of conversion for the lower income buyers of their lots, who qualify under some liberal criterion, the state would pay down the cost of those lots to where the payment on the remaining portion of the cost, plus homeowner's fees and mobilehome mortgage payments, was equivalent to one-third of each of the buyer's monthly income.

The state would eventually benefit at the time of distribution of the proceeds from the sale of the mobilehome and lot by retrieving the initial amount of down payment made by the state on the lot plus an amount attributable to a fair share of the appreciation in that land. The amount of appreciation gained would off-set the lack of or the minimal amount of income to the state during the term as a result of it being a no or minimal interest transaction.

Land value appreciation could be substantial as property appears to double in five years in this locale.

For further consideration, if we may, our proposal additionally includes the remaining residents of the park who may be financially able to afford an initial outlay of the down payment to acquire their lot. Typically however, such an outlay of funds would come from their personal life savings account, their fixed monthly income would be strained to cover the increased obligation of the monthly loan payments. This category would be assessed a nominal rate of interest on the amount of loan provided by the state, preferably 95% of the lot cost.

Concerning both of the cited categories of park residents, the state may consider the source for funds to accommodate these proposals to be derived from revenue bond issues and/or from the state purported reserve fund of some $1.5 billion.

Your time and indulgence in this matter is truly required and is very much appreciated.

We are with warm regards and best wishes for measurable accomplishments to the committee and our fond salute to Senator Craven who has a fine and educated perspective of the dire needs of the mobilehome owner and who has used it to achieve immeasurable equities.

Respectfully,

William D. Goodrich
Chairman elect of park committee
to research conversion, 212 spaces.

Donald A. Olmsted
Associate Director
GSMOL Inc., Region #7
809-27 Olive Ave.
Vista, CA 92083
Tel: (619) 726-5367

January 22, 1985

Senate Select Committee:

I believe the subject matter of this hearing is the most vital of all the hearings you have had. It explores the only feasible solution to the varied problems facing the mobilehome housing situation. Previous hearings and testimony plus county surveys all over the state verify these problems.

Surveying the state's history to help solve some of its housing problems and vehicles used by county and city governments to develope housing, one major financial source has been the most successful.

Bonds to finance veterans loans has a 40 year success record.

The city of Los Angeles financed 80% of all multi-family housing in 1984 with "Tax free Bonds".

The demographics derived from county government surveys of Mobilehomes all over the state and the census reports indicate ages and economic levels qualify the existing people in rental mobilehome parks for consideration using this type of financing.

To outline the situation:

- approximately 6,000 mobilehome parks.
- overwhelming majority of seniors involved.
- homeowners average 54% of median income.
- rash of closures and change of use from Mono to San Diego County.
  NOTE: Loss of rental spaces.
- depriciation schedules of land owners running out.
- re-assessment on tax rolls on resale to reschedule depriciation.
- drastic increased costs to land owners coming and thus economic eviction of seniors. (1-5 yrs)

-economics encourage only own-your-own development.

NOTES: -all developments cost equal.

-in new rental, all homes on real property tax, coupled with rents, the monthly outlay is the same for homeowners as in new own-your-own

QUESTION: Why would anyone develop rental?

-fill the landscape with own-your-own and it will have absolutely no effect upon the monopoly in rental mobilehome parks.

-no free enterprise in rental parks.

-over 50 cities already have rent control and esculating costs and pressure for more!

-more of these senior homeowners are transferring to section 8 supported housing supplements and long term tax drags for all.

Rather than rely on rent control, and/or the radical section 8 housing supplements, I submit that Tax Free Bonds are viable.

Charting this out will indicate monthly costs plus homeowner fees are rent equivilent.

It's feasible for this low income group of people, trapped in a disappearing housing mode to be able to assume the financial burden of this financial vehicle.

Ask any land management expert or consultant dealing with this type of housing and they will verify that rental mobilehome parks are dinosaurs.

The rescue of 1,000,000 plus people that live in the unstable situation of owning 3/4 of a housing complex and being at the mercy of the economics created by that 1/4 land ownership and its speculative value is vital.

Hoping for the aggressive and determined efforts of the committee to recommend and develop financing to solve this.

Sincerely,

D. Olmsted

Don Olmsted

cc: Craven Home Office

112-S

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