CALIFORNIA LEGISLATURE

SENATE SELECT COMMITTEE ON MOBILEHOMES

SENATOR WILLIAM A. CRAVEN, CHAIRMAN

Transcript of Hearing on

MOBILEHOME PARK FUNDING FOR CONVERSION

October 2, 1991
State Capitol
Sacramento, California

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Senate Select Committee on Mobilehomes

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ON

MOBILEHOME PARK FUNDING FOR CONVERSION

STATE CAPITOL

SACRAMENTO, CALIFORNIA

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OCTOBER 2, 1991

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Senate Select Committee on Mobilehomes

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OCTOBER 2, 1991 HEARING

FUNDING FOR CONVERSION OF RENTAL MOBILEHOME PARKS TO RESIDENT OWNERSHIP

- GENERAL BACKGROUND PAPER -

INTRODUCTION

Over the last decade, there has been a growing interest on the part of many rental mobilehome park residents in buying their parks when they are put up for sale, as a means of avoiding landlord-tenant problems in some parks, such as increased rents, problems with the resale of the homes, park rules and regulations, and possible dislocation if the park is closed or converted to another use. In short, residents seek more control over their lives, including stabilization of the value of their homes which resident ownership of the land under those homes will bring.

Conversion of rental parks to resident ownership is not an easy process. A sufficient majority of residents must support conversion to resident ownership to make it feasible; the park owner must be willing to sell to the residents; local and state agencies involved in the approval process must be willing to act in an expeditious manner; and, perhaps, most importantly, funding must be available to provide the capital to make resident ownership of the park a reality.

THE MOBILEHOME PARK RESIDENT OWNERSHIP PROGRAM

Senate Bill 2240 (Seymour) of 1984 established the Mobilehome Park Assistance Program (MPAP) within the Department of Housing to provide low interest loans to low income persons to help them convert their rental mobilehome parks to resident ownership. MPAP began making loans in early 1986, which, when combined with loans from private sources and/or local governments, provided a total financial package to make the conversion of any given park possible.

Three kinds of loans are made: conversion loans to resident organizations of up to 3 years to secure acquisition of the park; blanket loans to resident organizations up to 30 years to permanently finance conversion of the park; 30-year individual loans to low income residents to enable them to reduce the monthly costs of their share of the conversion. All loans carry a 3 percent, simple interest rate.

In the beginning, funding for MPAP was only temporary and came from a $1 million appropriation from the reserve of HCD's Mobilehome-Manufactured Home Revolving Fund, used to support registration and licensing. SB-484 (Craven) became effective in 1986, to provide a more permanent source of funding - a $5 surcharge on mobilehome vehicle license fees for three years - about $2 million a year - for MPAP. After 3 years, with continued success of the MPAP program, the Legislature approved another one-time augmentation of $1 million to MPAP through SB-525 (Craven) in 1988, and eliminated the December 31, 1989 sunsets on both the program and the $5 license fee surcharge to support it through SB-2192 (Craven). With the continued annual $5 surcharge and revenue available from repayments on existing loans, MPAP, renamed the MPROP (Mobilehome Park Resident Ownership Program) in 1990, provides almost $3 million a year to help finance park conversions.

<u>PURPOSE OF THE HEARING</u>

The purpose of the October 2nd hearing is two-fold:

1) to reassess the need for additional state funding - primarily an augmentation of the existing MPROP program to allow more MPROP loans to be made for resident conversion projects in future years;

2) to evaluate alternative proposals for providing such funds, such as general obligation bonds, revenue bonds, or various fees or surcharges on mobilehomes to support a higher level of MPROP funding.

<u>THE NEED</u>

Of course, mobilehome owners, looking for greater housing security than a landlord-tenant relationship offers, would like to see more state low-interest money available to make it easier for them to buy their parks. Consultants who specialize in putting together resident park purchases contend the lack of sufficient state money discourages residents from applying to MPROP in the first place. Moreover, with banks and financial institutions becoming more conservative about making loans, a shrinkage of capital in the private sector for these projects makes the need for more public money critical if additional parks are going to be converted to resident ownership in coming years.

Critics, including some mobilehome owners, argue, however, that the need for more state funding for park conversions is not documented. They contend the need for more funding has been exaggerated and that, while the general concept of self-ownership of parks is attractive to most mobilehome owners, when the reality of the actual costs and complexities sink in, many park residents become disillusioned with the conversion process. Lastly, skeptics point out that, if the private sector is reluctant to commit additional funds to park conversions perceived as "risky" investments, why should the state be called upon to take the same or greater risk with more public dollars?

<u>FUNDING ALTERNATIVES</u>

Beyond the threshold issue of need, the second question the Legislature must address is how additional funding for HCD's Mobilehome Park

Resident Ownership Program (MPROP) can be raised. Several bills have been introduced in the 1991 half of the current legislative session which may impact this question. These bills have been held over as "2 year bills" for consideration in 1992:

GENERAL OBLIGATION BONDS: SB-593 (ROBERTI)

This measure provides for a $450 million general obligation bond issue for low-income housing and homeless programs. If passed, the California Housing Bond Act would have to be approved by the voters at the June 2, 1992 primary election. The measure is similar to measures approved by the voters in 1988 and 1990, authorizing up to $600 million in housing bonds. None included funding for mobilehome park conversions.

General Obligation Bonds use the State's high credit rating to float the bonds, generally at lower interest rates than programs, which benefit from the proceeds of the bonds, could borrow the same money from conventional sources. Unlike revenue bonds, which are usually backed only by the revenue generated by the projects which they fund, the interest and charges on G.O. bonds can either be paid out of the revenues of such projects or as a General Fund obligation. G.O. bonds have been used more frequently in recent years to fund a variety of state programs, such as state park and wetland acquisitions, Cal Vet loans, prison construction, school building construction, and housing, among others. There were hundreds of millions of dollars in bond issues on the 1990 ballot, but the voters, who had repeatedly approved most bond issues in past elections, turned thumbs down on most of the '90 November ballot bond issues.

SB-593 would allocate the $600 million as follows:

- New rental housing, including senior housing:	$175 million;
- Rehab of rental and owner occupied housing:	175 million;
- First time homebuyers:	40 million;
- Shelter for the homeless:	20 million;
- Child care/job training for single parents:	15 million;
- Rental mortgage and bond insurance	15 million;
- Housing for farmworkers:	10 million.

Again, there is no allocation for mobilehome park conversions, even for primarily low-income parks. However, the measure, after passing the Senate on a vote of 28-8 on September 10th, went to the Assembly Housing Committee, where further amendments may be considered. Sponsors may be open to consideration of the allocation of a small portion of the proposed bond money for mobilehome park conversions. The major problem faced by SB-593, however, is competition on the June ballot with other potential bond measures funding a variety of school construction, park and recreation, and other projects.

REVENUE BONDS: SB-501 (CRAVEN)

This measure would establish a "Mobilehome Park Resident Purchase Fund", administered by HCD, for which up to $25 million in revenue bonds could be issued to finance park conversion loans up to 30 years, in accordance with guidelines now used for the administration of the MPROP program. Parks would have to file with the IRS for tax exempt status in order to qualify for tax exempt bond financing.

HCD would be given the flexibility to issue bonds tax exempt under both state and federal law or taxable under federal law but exempt under state law. Interest on the loans would be higher than MPROP's current 3 percent rate, though somewhat lower than conventional loan rates for tax exempt bonds. Bonds only tax exempt under state law would probably carry an interest rate comparable to conventional rates. Tax exempt bond proceeds, in accordance with federal requirements, could not be used to finance subdivided interests - that is, parks converted to condominium ownership.

Supporters of the bill argue that, while revenue bonds have not previously been used by the state to fund park conversions, they have been used to support other state housing programs administered by the California Housing Finance Agency (CHFA), and a number of local governments have used revenue bonds to finance resident park buy-outs.

Potential SB-501 opponents contend that CHFA had the authority to issue revenue bonds for mobilehome park conversions under the old Mobilehome Park Acquisition Fund, which was enacted in 1984 and sunsetted in 1989, but chose not to do so because it did not find the program " . . . to be workable." Moreover, the fact that loans financed through revenue bonds, particularly, if not tax-exempt, might carry what amounts to conventional interest rates - would not have any advantage for low-income park residents who cannot afford to make payments on conventional loans anyway.

SB-501 passed the Senate on April 4th on a vote of 33-0 and is now pending in the Assembly Committee on Housing and Community Development for a hearing and vote next year.

<u>LICENSE FEE INCREASES: AB-732 (HAUSER)</u>

Among other provisions, Assembly Bill 732 would increase the current $5 surcharge on mobilehome state vehicle license fees (VLF) by $20 to $25 per year for the MPROP. The measure would exempt mobilehome owners of low income, as defined, from the increase. Those persons would continue to, instead, pay $5 a year. Close to $10 million would be raised annually for the MPROP fund through this bill.

Proponents argue that the easiest way to provide needed money to MPROP is on a "pay as you go" basis. Those who benefit - the mobilehome owners - not the state or the taxpayers - would pay the bill. Those least able to pay for the increase, the low income homeowners, would be exempt.

Potential opponents of fee increases argue that the burden - a 5-fold increase in the current fee - even with a low income exemption - would be imposed on mobilehome owners subject to the VLF. Mobilehome owners who pay property taxes, instead of the state VLF, would pay nothing.

The measure is pending in the Assembly Housing Committee and must pass the Assembly Floor before the end of January, 1992, in order to remain alive.

OTHER OPTIONS

There are other alternatives which are not in legislative bill form. These include, but are not limited to, the imposition of a transfer fee or tax on the sale of mobilehomes and state mortgage guarantees.

MOBILEHOME TRANSFER TAX OR FEE - some have proposed that a transfer fee on the sale of a mobilehome, either a fixed amount or percentage of the sale price, could raise significant revenue for the MPROP program. Like the VLF surcharge, such a fee would be paid by mobilehome owners for the benefit of mobilehome owners. Unlike the VLF, the fee would not be an annual surcharge but only applicable when money was available upon the sale of a home. However, those selling mobilehomes, including homeowners, mobilehome dealers, and real estate brokers, may object that such a fee will add to the burden of selling a mobilehome.

MORTGAGE GUARANTEE INSURANCE - others have suggested the state establish an FHA-like program to guarantee private loans to resident organizations and/or individuals converting mobilehome parks to resident ownership, or guarantee bonds issued to provide funding for the loans.

Currently, the State operates a California Housing Insurance Fund (CHIF) under the California Housing Finance Agency (CHFA), which guarantees private loans for individual single family homes through CHFA programs. Although the original money to start the guarantee fund was appropriated from the General Fund some years ago, CHIF backed loans have an added loan insurance premium, the funds from which actually serve to bail out any defaults (which have been few), without touching the original money. Additionally, the state's 22-year old Cal-Mortgage program, a part of the state's Office of Statewide Health Planning, is authorized to guarantee up to $2 billion in loans to local agencies and nonprofit organizations for construction or rehabilitation of various health care facilities. The guarantees are a potential general obligation of the state.

TESTIMONY

This background paper is designed to set the stage for a discussion of various aspects of park conversion funding at the October 2nd hearing. Those making presentations before the Committee may wish to address both the need and some or all alternatives to financing the need for park conversion funding, including various technical aspects of these problems. Testimony, however, does not have to be limited to a consideration of issues mentioned in this paper - though persons making presentations before the Committee are reminded of the focus of this hearing. The Committee is NOT considering other mobilehome issues at this time.

9/27/91/JGT

T R A N S C R I P T O F T E S T I M O N Y

OCTOBER 2, 1991

SENATE SELECT COMMITTEE ON MOBILEHOMES HEARING TRANSCRIPT

MOBILEHOME PARK FUNDING FOR CONVERSION

ROOM 3191, STATE CAPITOL, 2:00 - 4:00 P.M.

MONDAY, OCTOBER 2, 1991

SENATOR CRAVEN: Welcome to the 24th Hearing of the Senate Select Committee on Mobilehomes. We are still holding hearings here in the Capitol, as we are doing today, and, as Chairman, I will continue to sponsor mobilehome legislation, if we feel it is both needed as well as feasible to enact.

First of all, I would like to introduce my colleagues with me, on my immediate left is Senator Ralph Dills, who comes from Gardena, in Southern California. I would like to tell you that he's got a lot of mobilehomes in his area, but I don't think Ralph, Senator Dills, really knows exactly what his district is, right at this juncture, and not knowing that, he doesn't know if he has a lot of mobilehomes or not. But I'll tell you, if anyone will survive, it will be the gentlemen on my left. Next to him is a new member of this Committee, but an old friend of mine, Senator Ruben Ayala, who comes from San Bernardino, and who does have quite a few mobilehomes in his district. Ruben replaces Senator John Doolittle who has left us for the Washington environs, now serving as a Congressman. Then we have Dave Olivieri and Lucio Lopez, who are the Senate Sergeants helping us today.

We are going to discuss the ramifications and intricacies of funding for the conversion of rental mobilehome parks to resident ownership. Most of you have had a chance to pick up a copy of the background paper and the bills and other materials which are on the front desk, which, hopefully, set the stage, so to speak, for this hearing. I hope there will be enough copies. If not, please share your information.

There are two prongs to the issue of funding - the need for more funding and how that additional funding would be accomplished. I think many of us in the Legislature, including myself, are sympathetic to the need. We know that many mobilehome owners would like to buy their parks. In fact, as many of you know, I already have a bill in the hopper which would raise more money through revenue bonds for park conversions. However, to be fair, we should consider the other side of the story. The Committee has heard some criticisms, as well as concerns, about park conversions from mobilehome owners themselves. We have heard from homeowners who question whether it is feasible for most homeowners to buy. Considering there are thousands of mobilehome parks in California, will there be enough money for them all? We have heard a number of unhappy stories about what happens to residents who can't afford to buy into parks which are converted. In some cases, where state money is not involved, their space is sold out from under them, their rents are raised, and, eventually, they are displaced. So the question is whether, in these cases, we are doing anything to help lower income people, or do park conversions actually end up displacing some renters sooner than otherwise?

The second prong of the discussion today is, perhaps, the most complicated. Assuming we need more funding, how is it to be accomplished? Should we use the State's bonding authority to obligate the public treasury to support these conversions? Should we use the revenue bond approach for nonprofit, low-income parks, as has been done at the local level in some cases. Should we insist that mobilehome owners pay their own way, through added license or sales transfer fees, if they want more money for conversions?

There are pros and cons in answer to each of these questions.

We have an agenda of scheduled speakers, and when you come forward to the microphone today, I would ask that you state your name and the organization that you represent for the record. Since this is being recorded - Dave is doing that over to your right - I'd ask also that you keep your conversations on a low key basis, if you will, because the noise affects the recording, and it is difficult to hear when transcribing. And, I think it would be good if you keep your testimony to, maybe, 7 minutes, if that would be appropriate; however, you know, if you need more time, certainly nobody is going to pull you away from the microphone. But, in order to keep it moving, that would probably be the amount of time you should use. If the Senators have questions for you, of course, we'll take that into consideration and give you additional time. So, hopefully, you're all set, as we are, and let us begin today with Traci Stevens, Assistant Director for Legislative Affairs, Housing & Community Development Department. Also, Chris Webb-Curtis, Manager, Park Resident Ownership Program is with Traci, so the two of them are going to start the mixed doubles here right now.

TRACI STEVENS: Mr. Chairman and Members, thank you for that introduction. As your Consultant has requested, I'm going to give a very brief overview of the program and where we are on the funding and data. I'll turn it over to Chris for any specific questions you have about the program, and, then, we'll be happy to address any questions. Right now, we have $3.5 million currently available in funding for the program. Since the inception of the program in 1985, we've committed over $20 million to park conversions. The $5 fee, that you're very familiar with Senator Craven, produces approximately $2 million annually, which we appropriate in an RFP fashion, as you know, when there's enough money to put out on the streets. We have been able to assist over 1200 low-income mobilehome park residents and 28 parks with 7 currently pending applications. So, that's a real brief overview of where we are - I'll let Chris go into the specifics of the application process, if you are so interested, and, if not, we'll address questions.

SENATOR CRAVEN: Traci, would you explain to those of us up here, as well as the audience, what the RFP procedures are?

TRACI STEVENS: Let me defer to Chris on that.

SENATOR CRAVEN: Okay, fine.

CHRIS WEBB-CURTIS: In the past years, we announced funding availability with six separate filing periods, and, in this way, we were able to provide potential users with up-to-date information about the amount available, since it changes regularly with payments to the fund from the $5 fee, and repayments of loans and commitments of funds. Our last RFP filing deadline was November 15, 1990 - almost 12 months ago. Now, we have $3.5 million available.

SENATOR CRAVEN: Now, do you want to explain to them that RFP isn't Richmond Fedricks Potomac, the little railroad... (laughter)...

CHRIS WEBB-CURTIS: Sure, I'm sorry... (laughter) An RFP is a Request for Proposals. We send out the Request for Proposals, which is a formal statement of the amount of money we have available, and the procedure for applying for funds, with a deadline by which people must reply. We have a deadline now of October 11th for the current RFP period. We do not expect to be able to announce the availability of funds again until the summer.

With respect to our anticipated response to the current RFPs, others who will be making statements here may be able to provide you more information, but we've had many discussions with prospective applicants and feel that we will receive more applications than we will be able to fund with the $3.5 million. Our application process generally starts with an inquiry from a mobilehome park resident, a local government representative, or a consultant who called to discuss the possible purchase of a particular park. And, by phone, we usually provide some technical assistance; we send out a packet of information, including an application. We suggest that we talk again after people review the material. We usually know when to expect an application because of our phone contact, and we try to work together to correct deficiencies if possible. Staff tries to accommodate tight time lines, coordinating by phone and expeditiously as we can. Where funds are available to fund all applications received, the applications are not ranked. Ranking of projects is based on priorities set out in statute and regulations, and these ranking priorities include, briefly, project affordability, project feasibility and effectiveness which treats the leveraging of funds and programs, and overall efficiency in the use of funds. We also give additional priority to rural projects. In this particular funding round, as I said, we expect to receive requests for more than is available, and we are very sure we'll be ranking the applications. Staff will review all applications for deficiencies after they are received on October 11th, including a site review - that is an on-site visit - and allow each applicant an opportunity to correct any minor deficiencies prior to ranking. After we rank the projects, staff makes recommendations to the Local Assistance Loan and Grant Committee at the Department. That Committee is comprised of representatives from the Department, the lending industry, and the public sector. The Committee meets once a month - usually the fourth Friday of the month. We will take the upcoming program recommendations to Loan Committee in December only if we can complete the evaluation of all the applications in time. It's hard for us to tell in advance whether we will be able to go in December. January may be more realistic. It really depends a lot on how many applications are received. We make a recommendation to the Committee which, in turn, makes a recommendation to the Director of the Department. If the Committee and the Director both approve the recommendation, then a contract is executed among the resident organization, the local public entity, and the Department. And this process can take as little as a few weeks on a very expedited basis to as much as several months. The latter is more common.

If we are making a conversion or interim loan... actually, the rest of my remarks, though brief, talk about the funding of the loan, if you're interested in my continuing with that... just getting the money out.

SENATOR CRAVEN: Whatever you choose to do.

CHRIS WEBB-CURTIS: If we are making a conversion or interim loan that's a short term loan, the contractor provides us with whatever information is required - minimally a closing budget and a request for payment, along with the security documents and any additional information that's specified in the contract. If we're making a blanket or individual loans, long term loans, then the individuals receiving assistance or loans must be processed in much the same way a conventional lender processes an application for a loan by an individual. In addition to loan packaging, we require any other documents which demonstrate security and feasibility of the project. This process can take anywhere from two months to two years, depending greatly on the completeness of the application, the readiness of the park to purchase and convert to resident ownership, and many occurrences and schedules outside the control of either the applicant or the Department. We make every effort to be sensitive to the problems created by short options to purchase, though we are aware that we cannot always provide the interim financing that is often needed on an even more expedited basis.

SENATOR CRAVEN: Very good. How many parks has HCD put money into to this time? Do you know?

CHRIS WEBB-CURTIS: Thirty-five...

SENATOR CRAVEN: Thirty-five. I know it's very difficult to average in this area, because there's such a diversity in parks, types, locals and any number of things, but do you have any idea what the average loan has been?

CHRIS WEBB-CURTIS: No... but, you mean individual... loan to a park?

SENATOR CRAVEN: Yes.

CHRIS WEBB-CURTIS: No... but there has been a general trend toward the maximum limit, which is a million dollars.

SENATOR CRAVEN: A million dollars... well, what we have in the treasury, so to speak, won't go very far.

CHRIS WEBB-CURTIS: That's correct.

SENATOR CRAVEN: That being the case, you take a couple of cracks at it, it's all gone, isn't it? From the standpoint of the systemic procedures, absent the money attitude, do you think the system is working well?

CHRIS WEBB-CURTIS: I think so.

SENATOR CRAVEN: It doesn't need any fine tuning... or is there something that we could do or invoke to make it better, or do you think that we have reached ultimate?

CHRIS WEBB-CURTIS: Well, I believe that there's always room for improvement, but one thing that I might add is that we're going through a process of making some regulatory changes to the program now, and we, in fact, met with many of the consultants on this issue several months ago, just to kind of get their input and talk with them about what...

<u>**SENATOR CRAVEN**</u>: Now, these are the consultants that handle the transactions for the Department?

<u>**CHRIS WEBB-CURTIS**</u>: Exactly.

<u>**SENATOR CRAVEN**</u>: Have consultants, in a general sense, been a boon to the people in the parks?

<u>**CHRIS WEBB-CURTIS**</u>: It's a very complicated process - the conversion of parks to resident ownership - and, while there are lots of parks who have residents in them who are very sophisticated, I think it helps to be able to have all the problems focus in one place, and ...

<u>**SENATOR CRAVEN**</u>: Yes... well, it's almost like hiring an attorney if you're going to go to court. You'd like to have some expert advice. John, were you getting ready to say something?

<u>**JOHN TENNYSON**</u>: Yes, I have some specific questions. First of all, of the $20 million that you've put into the program in the last five years, how much of that goes into blanket loans and how much into individual loans? Is most of it going to individual low-income people or is it going to the homeowners' associations as a blanket loan to help them buy the park?

<u>**CHRIS WEBB-CURTIS**</u>: I'm sorry, I don't have the figure, but I can tell you how many loans we've made in blanket loans and how many parks we've made

individual loans. We've made 16 blanket loans and 19 loans where those loans have been lent to individuals. I don't have the dollar amounts however. 19 individual loan parks...

JOHN TENNYSON: 19 parks in which individuals...

CHRIS WEBB-CURTIS: That's right.

JOHN TENNYSON: I see. And, have you had any problems with those loans in terms of defaults?

CHRIS WEBB-CURTIS: No.

JOHN TENNYSON: Okay. How many parks whose applications have been put forward in an RFP have been rejected... for inadequacy of not meeting the low-income limitations, or whatever the case may be?

CHRIS WEBB-CURTIS: Not very many... very few. We've rejected very few. There were a few rejections, early on in the program... I'd say, maybe, five... but, that truly is a guess.

TRACI STEVENS: We'd be happy to get that information for you, John.

SENATOR CRAVEN: How about the attitude which swirls around the low-income aspect of parks - low-income people there. Has it really helped sustain them in a general sense? In other words, are rents kept at bay, so to speak, following the conversion and to allow the mobilehome people in the lower income area to subsist in the park? Has that worked out quite well, or do you have a follow on that?

CHRIS WEBB-CURTIS: I don't know that we have anything more than anecdotal information to try to answer that question. I think, perhaps, a study a few years down the road might be more appropriate to find out exactly what has transpired since a lot of these conversions have happened...

SENATOR CRAVEN: Well, it's entirely possible you need more run time on that to find out, but that's a consideration because those are the people really that we were taking into consideration at the outset.

CHRIS WEBB-CURTIS: Perhaps I could just mention one thing... and, that is that, under the program, there are certainly residents in the park who are paying a good portion of their money, after conversion as before conversion, but they are not allowed to pay more than they paid after conversion...

TRACI STEVENS: ...And you would assume that that would address your ultimate question, but, again, we don't have any data.

SENATOR CRAVEN: Yes... uh-huh... John?

JOHN TENNYSON: If I might interject, the Committee has received, basically, two criticisms or, I should say, complaints about - not necessarily your program - but the concept of the conversion of rental mobilehome parks to resident ownership, if you have in mind the premise that you're preserving low-income housing. The first complaint is that, in some cases, it displaces low-income people who can't afford or, for whatever reason, don't buy-into the park, because their rents are increased over a period of time, and, eventually, they are economically displaced. The second complaint is that, unless it's a limited equity co-op type situation, where they can't pull out their entire equity, that you're actually converting what was once a low-income park into a middle income park. The state is helping them stabilize their mobilehomes, so to speak, so that five or ten years down the road, they can pull out a large chunk of change, which the mobilehome wasn't worth at the time it was in a rental park, and, therefore, the new buyer, five or ten years down the road, is going to have to be, not of a low-income but at least of a middle-income to be able to afford to buy. So you're gradually changing these parks into, shall we say, something other than low-income parks. Do you have any comments on that?

CHRIS WEBB-CURTIS: Well, on the one hand, if you're in a rental park where the rents go up, clearly, the value of your mobilehome is decreased, because anyone moving into the park has to pay higher rent and, therefore, can't pay as much for the housing, and it is true that, if you stabilize the rents in the park, hypothetically, the value of the home may increase. So, you know, in a sense, that may be a valid criticism, and, on the other hand, you are stabilizing the park.

TRACI STEVENS: And, it addresses a future type of insurance policy where you have something that is constant to depend on in ten years, and who's to say what will happen with the economy, and with rents, and real estate, but, again, the other side of that coin is that it's a constant.

SENATOR CRAVEN: I think Senator Dills has a comment.

SENATOR DILLS: When we talk about low-income, what is it now and is that changing?

CHRIS WEBB-CURTIS: The criteria for low-income?

SENATOR DILLS: Yes.

CHRIS WEBB-CURTIS: Well that changes as income level goes up or down in the State of California, but low-income is defined as below 80 percent of median. So, if the median income is $30,000, then low-income is 80 percent of that.

TRACI STEVENS: And it's county by county, Senator.

SENATOR CRAVEN: Uh-huh... county by county... so, you just factor your own immediate locale as opposed to what they do in Los Angeles.

CHRIS WEBB-CURTIS: Yes, that's right.

JOHN TENNYSON: Give us an example. Do you have a chart; San Diego County?

CHRIS WEBB-CURTIS: I don't... I don't have an income chart. Oh... okay, $24,000... so, that must be the lowest. My example happened to be San

Diego County and I didn't even know it.

SENATOR CRAVEN: Well, we have a few mobilehomes there. Now, I don't know... Bob Presley, who I thought would be with us - and may still be here - he was with me this morning at a hearing - he has the mobilehome capital of the world in Hemet... Well, do you have anything Ruben?

SENATOR AYALA: SB-2240 by Senator Seymour, which created the mobile park, uh... appropriations program, whatever it is... under that, you originally had $1 million?

SENATOR CRAVEN & TRACI STEVENS: That's what we started out with.

SENATOR AYALA: And that's what you have today?

TRACI STEVENS: No, we have an entirely different funding source. Senator Craven introduced a bill which was chaptered two years... was it two years ago... SB-484, which put into statute a permanent $5 per section fee on mobilehomes, and that $5 fee produces approximately $2 million annually which is dedicated to this program.

SENATOR CRAVEN: '86, I think it was....

SENATOR AYALA: Well Senator Craven also has SB-501 in the Assembly side now that would appropriate $25 million in revenue bonds?

SENATOR CRAVEN & TRACI STEVENS: Yes... right... uh-huh.

SENATOR AYALA: Under that bill, there... will we be able to discuss that bill eventually before we're through today, SB-501? If so, I'll hold my questions until then.

SENATOR CRAVEN: Yes. that bill that we talked about initially that produced a million dollars, or whatever it was, on the $5 surcharge, we not only found that there were a lot of people out there but there were a lot of them who didn't live in mobilehome parks, because we were charging them as well... some guy living out on 20 acres in the woods somewhere, and he wondered how the $5 fee was going to help him, and, try as we may, we couldn't find an answer to that, so we excluded them. But, John, Senator Seymour, now an honest to God Senator, he, back in the halcyon days of the past, introduced that bill, and, you know, at first blush, a million dollars, it sounds like an awful lot of money, until you start figuring out what you've got to do with it and the number of people to be served, and it was just kind of opening the door... and we kind of keep creeping at it and pushing it a little further in each time, with the forbearance and kindness of the Senators.

TRACI STEVENS: If I might, Senator, one more quick comment. John had asked us to look at need as an issue, as you're discussing SB-501, and tell you what has been the historic trend. And, to put that in perspective for you, we have never had a funding round where our applications exceeded the funding availability. Uh...

CHRIS WEBB-CURTIS: Not "never"... there have been a few... just a few.

TRACI STEVENS: Oh, okay. I stand corrected. At this point, as Chris said, she is anticipating, based on anecdotal information from specific parks, a need exceeding what we have, but, again, we have nothing to base that on, and we really don't know what that means specifically.

JOHN TENNYSON: No documented needs?

TRACI STEVENS: Right... right.

SENATOR CRAVEN: Well, we thank you both for being with us. Next, I'm going to ask Mr. Maury Priest, who represents GSMOL here in Sacramento and has done so with considerable distinction over the years... Maury.

MAURICE PRIEST: Thank you, Senator, Members. On behalf of GSMOL, we appreciate your hearing today and all the efforts that you've made over the years to assist the residents of mobilehomes in the collective purchase of mobilehome parks. I think today's hearing is particularly timely. Although residents of parks have benefited from the existing laws and from the Mobilehome Park Purchase Fund, we are at a critical period of time, in terms of that program. I don't believe that when we first commenced the program - the resident program, administered by HCD - that it was our intent that the State be the principal lender or play the leading role with regard to loans. But, at this point in time, the reality is that most of the conventional lenders that we had depended on, in order to complete the funding of a park purchase, are, in large scale, abandoning this area of loans, and I think there are a number of reasons for that. I think some of them can be addressed legislatively, and some of them may simply be policy decisions made by certain lenders, and the change in law may not induce them to come back. But, there are certain things that can be addressed in this coming session that would help resolve the problem.

Let me first speak about SB-501. GSMOL supports Senator Craven's SB-501. We believe that the issuance of bonds is critical. We believe that it's a viable means of raising revenue. There are pros and cons, certainly, to another bonding measure and issuing bonds for that purpose, but the amount of need on the residents for this type of funding necessitates some bold move to try to address the problem, and we think that the bond is, at least, part of the solution to the problem that we have right now, and we're in support of that measure. We've also worked with Assemblyman Hauser's Committee - the Assembly Housing Committee - and I know that Committee, as well as the Senate Housing Committee have been very supportive of this concept. In reviewing AB-732, as a vehicle to use and to assist in addressing the problem, we've expressed some concern as to whether or not the bulk of our members that are still in rental parks could afford the amount of increase that is currently proposed in the bill. What I'm speaking of is the surcharge that comes every year with their annual registration fees, $5 of their annual registration fee goes into the Park Purchase Fund, and the current proposal in AB-732 is that that $5 fee per section of mobilehome - and, realizing that most of them are double-wides, that means that, in effect, they're paying $10 under current law - that that would go to $25 per section or, in total, $50 each mobilehome in the State. Now, $50 per year in the big picture may not seem like a lot of money and, to a minority of mobilehome owners, $50 may not be the difference between making it or being broke, but the majority of our members are senior citizens on a fixed income. For many of them, Social Security is all they've got. Rents are escalating beyond what they certainly anticipated at the time they retired and went into mobilehomes. So, we're concerned, and we think it's a very well placed concern that a $50 per year jump on every person who is currently in a rental park, may be cost prohibitive for some of those people. Many of them are having to seriously face a move out of their homes - either a distress... a fire sale of their home, just so that they can escape the rent that they're now facing. It's a conflict of position, if you will, to say that we want to help them by helping them collectively purchase the park, but, in order to help them to do it, we want them to pay a $50 fee per year toward the resident purchase fund. Some of them simply may not be able to afford that. So, that's one of the concerns that we have.

JOHN TENNYSON: Maury, let's throw you a little curve here, if you don't mind. This Committee has to explore all avenues or all approaches, and we have a number of people who have posed the question that, if the private financial institutions are pulling out of this area, why should the State - and, presumably, they are pulling out of the area because of risk or because of a more conservative financial position - why should the State step in and use their bonding authority or their good credit to bail out mobilehome park residents? Why shouldn't mobilehome park residents - the Hauser bill, for example, does exempt low-income people, as defined - so, why shouldn't they pay their own way on a program that benefits them?

MAURY PRIEST: I don't see the bond measure as a replacement for private funds or for conventional lenders. I think we're still going to need to draw them back into the market. But I think that the bond proposal that's in SB-501 can be justified because the State has a public policy interest in preserving affordable housing. I mean for years we've had on the books the housing element that the reporting is administered by HCD, but each county is supposed to indicate, on an annual basis, what they're doing to preserve existing affordable housing or to promote the development of more affordable housing, and I think that, in terms of an overall cost to the State, the bonding measure, first of all, meets that public policy - that legitimate public policy concern, and it also, in the long run, means, in my opinion, that there are going to be fewer senior citizens that have to go on public aid or public assistance simply because they are no longer able to afford their own private residence. Ultimately, I think that's where it could end up, but I don't look at SB-501 as a replacement for the conventional lenders.

I think that another vehicle - and I'm sure that some of the speakers will address it in more detail - is the possibility of a transfer fee at the time of sale of a mobilehome. In other words, if we did not - and it's not up to me to decide that but, for example, if the increase in annual registration fees didn't take that $50 jump or a $40 jump, I should say, from the existing law, and, instead, a transfer fee was paid at the time a mobilehome was sold, statistics show - and I believe these are from HCD registration figures - that there is somewhere around 60,000 sales per year of mobilehomes. At the time of each of those sales, a transfer fee could be paid to support the Mobilehome Park Purchase Fund. The GSMOL Executive Board has informally discussed figures in the range of $125 transfer fee.

And, if you were to do some arithmetic and multiply roughly 60,000 transactions times $125, that would raise a considerable amount. If that type of transfer fee were combined with SB-501 and the bonding measure, that would be a significant step forward.

That brings me down to why I believe many lenders are bailing out of this area of the loans. I don't think it's necessarily because of a high risk, but there is a gap in the law right now that we can help close that will be meaningful to some of the lenders - the lenders that have made mobilehome loans. I'm not talking about parks, I'm talking about mobilehome loans, and who has been listed on the HCD title documents as the legal owners - their security has been the mobilehome - if they agreed to loan $30,000 so that Mr. & Mrs. Smith can buy a mobilehome and that home is situated in a rental mobilehome park. Now, 15 years later - let me say 10 years later - maybe it's a 15 year loan - 10 years later, the Smiths want to join all the other residents in the park in doing a park purchase. Okay? They succeed. Let's say they were one of the 35 that were able to do it. Thereafter, one of them dies, the other becomes ill - for whatever reason, their home is foreclosed upon. Okay? And the lender forecloses, and they now basically learn for the first time that their security interest is now complicated by the fact that there is an investment that was made by the Smiths in the space which they live on. Maybe it was a co-op, maybe it's a mobilehome subdivision. There is a conflict that is now in the lap of the lender whose security has been jeopardized because they don't control that space. In other words, it may not be a simple matter of making up the rent to the park owner and advertising to sell. There is now an interest that that resident acquired as part of the resident purchase plan that the lender never anticipated, and it may be a $3,500 contribution, it may have been a $10,000 investment - in some of the mobilehome subdivisions, they've contributed $20,000 or more per space - and you have the heirs of that mobilehome owner or you have a subsequent buyer who says, "fine, take your mobilehome off the space and I'll bring in my new mobilehome, and I'm buying the $20,000 space". And, all of a sudden, the lender is out, and that has happened to lenders, and to those it hasn't happened to, they've certainly heard the story, so I won't belabor the example, but I believe we could introduce legislation that would adequately protect the rights of the lender. And, it may mean that the homeowners' association, if there is a default or foreclosure, that under the terms of the homeowners' association, the ownership interest in the subdivision or the co-op - you know, that's purchasing the park - would be re-acquired by the homeowners' association or by some other entity who could then deal with the lender. In other words, I don't believe it's equitable for lenders, who we would like to keep in the business and like to keep in the lender field with mobilehomes, to have unexpected problems when and if there's a default in their security. And I think there's an equitable way that we can protect their interest so that, if a foreclosure occurs and they end up with the home, they can either acquire the interest on that space or be dealing with the homeowner associations, so that their rights aren't complicated. So that's one of the ways that I believe that the lenders would come back in.

However the Committee decides to proceed, or the Legislature decides to proceed, I would urge them that, in whatever vehicles are pursued, that they be done on an urgency basis. I think that Republicans, Democrats, and Independents have all shown support for the concept with regard to the resident purchase; the park owner organization has not had objections in terms of the funding mechanisms of the purchase fund. We've really been able to realize some community of interest within the mobilehome industry on the issue and, for that matter, I think that an urgency clause in any of these bills is justified, so that we don't fall flat on our faces this coming year and have a need with no solution in sight.

SENATOR CRAVEN: Good. Yes, Senator Dills.

SENATOR DILLS: Mr. Chairman, could I interject a thought at this time? This last year we had a resolution which had the effect of law with reference to our own House, limiting the number of bills that we can put in. You have today a man who has brought us the possibility of another bill. This is not condemnation, this is commendation. It's not necessarily an argument for a limitation, but I just wanted to point out that only yesterday I was at a doctor's office and inquiring why my voice was not doing as well as it used to, and he said why... all of those bills you have down there... do you need 6 or 7,000 bills? And, so I hastened to try to explain to him that not all of them are needed, perhaps, but there are occasions - and this appears to be one such occasion - when there are problems out there that need to be solved, there's opportunities to be taken care of by such suggestions we have here. I thought I might put it in there for those who are critical of us for putting in so many bills, but, sometimes, there are people who need to have bills put in for them.

SENATOR CRAVEN: Well, then, of course, we could have a hearing on that too. The last bill of the first year that I was in the Assembly, Judge

Kapiloff - all of our colleagues have done so well, and here we sit, you know - but this fellow is a Superior Court Judge now, you know, Larry Kapiloff - but he and I were in the Assembly then, and I was ending my Freshman year, and the last bill up on the Floor was that term limitation bill. And, I can remember a fellow that you may have heard of, Paul Carpenter, who was then an Assemblyman too. Paul got up and he argued very vehemently against term limitations and, I can remember his closing remarks, which were "the next thing you know, you'll have us wearing uniforms". And some of my colleagues are... (laughter). Yes, Ruben?

SENATOR AYALA: Go ahead, finish your thought...

SENATOR CRAVEN: Well, I was just going to say to Maury, when you started out talking about the lenders and their shying away, I think that the point that you made is well made and very, very appropriate, because I think that lending organizations have a certain feeling of a latent ephemeral quality to mobilehomes. They think they're here today, gone tomorrow, and they don't seem, at least in their mind's eye, to think they seem as solid as the normal real estate loan may be, and I think we have to overcome that somewhere along the line. Perhaps that, which you brought to our attention, will be a step in the right direction. Ruben?

SENATOR AYALA: Yes. I'd like to respond to Senator Dills that I'm sure we don't need that many bills every year, but the ones I introduce certainly are necessary... (laughter)...

SENATOR CRAVEN: Yes, I've always felt that about your bills, Ruben. I don't think that... but, you see, both of these gentlemen on my left are Standing Committee Chairmen, and, as a result, they have to take an interest - they have committee bills and both, particularly Ruben, carries a lot of bills for the Administration from time to time, regardless of whose administration it is, whether it was the Deukmejian Administration and now the Wilson Administration. They turn to the Committee Chairman to try to process that through for them, and that kind of adds to their numbers. I, on the other hand, don't carry... I don't know... do you know how many bills you had last year, Ruben?

SENATOR AYALA: Yes, 27.

SENATOR CRAVEN: Well, that's not many. I think I had 35, if I recall correctly, which is as many as I've ever had. Ralph, how about yourself?

SENATOR DILLS: A little better than each of you...

SENATOR CRAVEN: The late Bill Bradley, who was a very dear man that I'd known for years... but, the first year Bill Bradley was here, he kind of came into the Assembly late - I mean, he was not a kid when he started - was a fellow who was probably 63, 64 years old - he succeeded me, at one time, in a job as a city manager, and so I knew him very, very well and he was a very dear man - but the first year he was here, he introduced a hundred bills in the Assembly... 100 bills... and he seemed to take great pride in the fact that he had a hundred... and I told him, "Gee, next year, don't introduce a hundred bills." So, the second year, he came back, and he was all smiles when he came to visit me in the office and he said, "Well, you're going to be happy when I tell you that I didn't introduce the hundred this year," and I said, "Gee, that's wonderful, Bill, how many do you have?" And he said, "Sixty-five." So, he was making it in short steps. Well, Maury... Sure, Ruben?

SENATOR AYALA: Can I pursue the gentleman's statements here on... you mentioned 501, which is Senator Craven and Senator Presley's bill... I'm sure that Mr. Dexter Goody will be testifying on that but, on that bill, which creates the Mobilehome Park Resident Purchase Fund with revenue bonds, and then it goes on in the digest and says that it is required that the money be used for loans made pursuant to low interest loan provisions related to the Mobilehome Park Purchase Fund to nonprofit corporations, stock cooperative corporations, or other entities created by owners of the mobilehomes... But, then, if you go on to page 4, as was brought to my attention this morning, page 4, at the bottom of the page, starting with line 39, it says that no nonprofit corporation, stock cooperative corporation, or other entity formed for the purpose of acquiring a mobilehome park shall receive more than one loan from the fund. Now, these folks are involved, I understand, in creating new mobilehome parks, so they can only get one loan and then they're through. They can no longer use... or is that per site... I mean..

JOHN TENNYSON: ...Per park...

SENATOR AYALA: Well, that is not well defined, is it? With the way it reads now, it reads that acquiring a mobilehome park shall receive no more than one loan from the fund. Shouldn't it say per park, or per location, or per whatever?

JOHN TENNYSON: Senator, I think the intent of the legislation is to assure that the park, once it is converted from a rental park to a resident ownership park, doesn't become eligible for subsequent loans in subsequent years, which would deny other parks. But I don't think the intent is to deny individuals within that park individual loans as well as a blanket loan, as was described by the HCD Representative. We could clarify that point though... well taken.

SENATOR AYALA: When you have a nonprofit corporation, who is in the business of creating new parks, you're going to be able to define that further to say that it applies to location... no more than one loan per location...

JOHN TENNYSON: The nonprofit corporation is usually the organization or corporation that owns and operates the park, and they would receive the loan.

SENATOR AYALA: What if they are involved in purchasing other parcels of land for that purpose and holding them to develop into parks? Can't they get a loan for these other parks as well?

JOHN TENNYSON: Under current law, I don't believe they can. I don't know of any organization that does that at this time, but we may find that there will be in future years.

SENATOR AYALA: Because there should be one coming up here pretty soon that does that and, if you only allow them to use one loan, then they're out of business, because, you know, they can't purchase any other things. They'll be coming and testifying here and they'll give more on that.

SENATOR CRAVEN: Well, I'll tell you, Senator Ayala, I think that we'll call upon John Tennyson and his Juris Doctorate to give us some better language and to clarify that for you... and for all of us. Maury is that it?

MAURICE PRIEST: I was just going to introduce our Representatives from GSMOL. Two of our Representatives, who I'd ask to come forward at this time: Inga Swaggert, who's a Vice-President with GSMOL and she's the Vice-President for Resident Owned Parks, representing those of our members who have been able to collectively purchase their parks; and following Inga will be Paul Henning, our Vice-President for Northern California.

SENATOR CRAVEN: Very good. Nice to have you both here. Good to see you again. You're looking very well.

INGA SWAGGERT: Good morning, Senators. Thank you for this opportunity and I bring greetings from Mr. Hennessy. He was going to be here and I'm his substitute.

SENATOR CRAVEN: Fine. He chose well.

INGA SWAGGERT: Thank you. We all know that funding is the biggest obstacle to mobilehome park purchases or we wouldn't be here. To continue with the comments that Maury was making on the conventional lending institutions, just a few days ago, at the National Foundation for Mobilehome Owners annual convention in Las Vegas, I talked to two lenders. They are not totally pulling away from financing. The point that Maury raised about the security is what bothers them. They need that security of a deed of trust, which they can then control if they have to foreclose. Therefore, currently, they will consider the condo method and planned unit development, PUDs, for financing. The other source of financing I've found to be viable is the seller financing or taking over the park owner's loan. After all, by carrying the paper, the seller assures himself of a steady income stream on his own secured property. I don't know how much more secure that could be... and he now gets the income without all the headaches. He's made park owners out of the residents and the residents have the headaches, which, in most conversions, are left behind by the owner because of the deferred maintenance factor. Then, of course, we have the public entity for financing, which we all know - the cities, the counties, the state, the federal - they all have financial subsidy programs for residents who have varying financial needs, and, of course, in California, HCD is the lead agency. And, being aware of the eminent depletion of our fund in California, and also the inadequacy of the actuarial $5 per section assessment previously imposed on our mobilehome owners to create the fund, we in GSMOL met with HCD back in January of 1991. The purpose of the meeting was discuss the usage of the assessment and the evaluation, and the success and the effectiveness of the program. Similar to some of the questions that John was asking, GSMOL wanted to be prepared with recommendations for this hearing such as you're holding today. We received the written reply in February - partial answers that could not be accurately computed. We realized that HCD was, at that time, in transition and that our concerns were not top priority items and we patiently waited for another opportunity to obtain additional information to offer proper suggestions for adjustments to the program in the form of legislation or administrative regulation if necessary. I attached to this testimony, of which I will give you a copy, exhibits a, b, and c. They are the MPAP reports for the year '86, '87, '88, '89, and '90 and they are the excerpts on just this particular program but that bulletin covers all the loan and grant annual reports and I find the reports for those years, which is the only ones that I could find in publications, to be inadequate.

The following recommendations, however, we are making for additional funding for this program. (1) Please do not increase the $5 per section on the homeowner. Maury elaborated on that, and we concur with him on that. (2) Another suggestion for utilizing the fund and, maybe, in a more beneficial fashion in that you would be able to determine the viability of an acquisition, would be to put up front the conversion cost loan and cap that loan at, for an example, $20,000 - and I use that figure because the State of Oregon has adjusted their program to accommodate that - and this $20,000 is to be used for the start-up costs to establish the feasibility of the acquisition by the residents before the State puts any additional money into it. (3) Then the other funding sources, which are the local sources - the CDBG, the redevelopment funds, and the local bonding programs - I think should be utilized before State funds come to the rescue. There is to be explored - and I thought HCD was doing this - the National Affordable Housing Act, which is a federal program, and how much of mobilehomes are included in that program, I haven't been able to ascertain. I've been told the HOPE Project, which is part of it that we were in, but the rules and regs have not been finished on that and I was told to contact my Congressman when the rules and regs are finished. We agree as a body, as Maury said, with SB-501. However, I would suggest that that revenue bond be restricted to the actual purchase assistance and that the assessment and any other repayments of previous loans be used for the start-up, $20,000 or less. I would also... I think there's been some talk previously to increase that bonding to $50,000. Now, if you analyze the program and find that viable, maybe that would be a way to go - shoot for the top and maybe come down.

JOHN TENNYSON: You mean $50 million?

INGE SWAGGERT: Yeah. Sorry, John. You've got the figures. Then, also, with of the conversions that have been "taken back" because of things that were not properly done by the consultants or by those homeowners that chose to be their own consultants or attorneys who knew nothing about actual real estate transactions, we would suggest that, if purchase funds are given under the revenue system, that prior to release of the funds, the following steps be completed in the interest of consumer protection. The hazardous waste survey be completed; the low and moderate income survey be completed; a preliminary title report be completed; a certificate from a financial institution certifying the financial viability of that particular acquisition by the residents; and, lastly, a HCD inspection, certifying to the condition of the mobilehome park. Maury touched on AB-732 and we've calculated roughly $8 million could be raised by the transfer fee that we have suggested. There is also the nonprofit 501 C-3 bond financing program. I have attached a sample of what happens, good and bad, in those cases, to my material, and that very sample will demonstrate that it's a park that used 501 C-3 bonds, and that State inspectors are now contemplating closing unless they repair everything that needs repairing in there.

Then, I have a question, more so than a statement. Prop 77, Prop 84, and Prop 107, John, was to be for low-income and homeless housing, as I understood it - that was Roberti's bond issues. Was there anything in the total of those bond issues that we could tap into with this program?

JOHN TENNYSON: No, not that I'm aware of - nothing considered good for mobilehomes.

SENATOR CRAVEN: I don't think they envisioned mobilehomes... no.

INGE SWAGGERT: Well, it also seems to me that some of the loans that the Department has made are very heavily leveraged as in Senator Presley's 604 - the cost and the total amount outstanding raised the loan to 100 percent of security? I don't think there's any financial institution that would lend up to 100 percent of their security.

JOHN TENNYSON: I think Chris Webb-Curtis, who's still in the room with us, who represents the Program, could respond to that perhaps? I don't have the answer to that. Is that a question to the Committee?

INGE SWAGGERT: Yes... or, whoever can answer it.

SENATOR CRAVEN: Well, we'll give Chris a chance.

CHRIS WEBB-CURTIS: Hi. We're talking about the bill proposed... the proposed bill... yes. It proposes that the limit be raised to... the total indebtedness - just a minute, I have to think about this because, believe me, we went around the room several times with this - that the loan to value ratio can go to 95 percent. That is to say that we can lend... we may lend up to 95 percent of the value of the park.

JOHN TENNYSON: That's the current law.

CHRIS WEBB-CURTIS: No, that's SB-604.

INGE SWAGGERT: No... SB-604 - it changes it to 100.

CHRIS WEBB-CURTIS: I'm sorry. Yes, you're right. There are two issues. One is total indebtedness against the park and the other issue is security - loan to value ratio. Yes, we may now lend up to 95 percent. We haven't done that but we may in certain circumstances where there are not other funds available to lend in the park. The other issue is the issue of total indebtedness against the park. And, SB-604 allows total indebtedness in the park to go up to 95 percent.

INGE SWAGGERT: 604 says a hundred.

CHRIS WEBB-CURTIS: Is that correct?

JOHN TENNYSON: Well, as I understand the issue...

CHRIS WEBB-CURTIS: Yes, I'm sorry... I'm sorry, I'm wondering. Total indebtedness against the park can go up to 100 percent - you are right, Inge - and there can be indebtedness against the park in excess of 100 percent but we may not be... we have to be above the 100... below the 100 percent. Did you understand what I said? I know I'm being very cryptic about it.

SENATOR CRAVEN: I understand what you're saying.

CHRIS WEBB-CURTIS: So, the loans, including our loan, can be up to 100 percent of value.

SENATOR CRAVEN: Uh-huh... that's exclusive of the indebtedness against the park.

CHRIS WEBB-CURTIS: Uh... you mean, beyond ours... yes.

INGE SWAGGERT: Includes all the indebtedness against the park...

JOHN TENNYSON: But I think her question was that she doesn't feel that's a wise policy. Do you have a response to that?

CHRIS WEBB-CURTIS: Well, the premise is that there are instances where there aren't other funds available or, where there are other funds available, they're willing to take a position subordinate to ours and where the park is feasible enough to be able to pull it off... uh, the Department, in other programs also has allowed programs to lend...

JOHN TENNYSON: But the MPROP program is always in the driver's seat... your first priority in terms of... Is that correct?

CHRIS WEBB-CURTIS: Yes... No, not necessarily. It depends on where.. what other loans there are available. Generally we come behind a conventional lender for example, and we would generally come in front of a local loan. You know, if the county was to come in with a loan, we would be superior to that loan.

JOHN TENNYSON: But not a private loan?

CHRIS WEBB-CURTIS: Not usually but sometimes. We have been in front of a seller loan, for instance, or a loan from the residents themselves.

JOHN TENNYSON: Okay, thank you.

SENATOR CRAVEN: All right, very good. Are you finished, Inge?

INGE SWAGGERT: Yes... uh, the uh... I mentioned the heavy leveraging. I think there's a lack of proper monitoring, especially in limited equity housing co-ops and stock cooperatives. The proper reserve accounts are not set up, the proper operating budgets, and some of those loans from the State are 30-year long-term loans, which I think have been the main culprit in depleting our MPROP fund - a fund that was originally, when you established it, to be a revolving fund. In other words, after a number of years, you get pay-backs. I don't think... I think if you ran the figures, I don't think the pay-backs equal, you know, what we've been putting out. It's getting less and less each time because of the 30-year term loans. It was to be revolving in order to assist as many mobilehome owners as needed assistance since all the mobilehome owners in the state, when it was established, were contributing to the program.

JOHN TENNYSON: Well, isn't that how it's working? That's our understanding... that the payments that are coming back will go right back into new loans...

INGE SWAGGERT: Yeah, but when you've got a long-term loan out there... let me give you an example, John. In Auburn Hills, Culver City, 118 spaces, closed December 27th, 1990, 109 participants, 2 not participating, 7 of the homes were for sale. Original funding, the first lender was the Bank of America State Bank, was the first for 10 years. The Redevelopment Agency of Culver City is in second position and they will not be paid until B of A is paid first. The MPROP loan of $805,000 will not be paid back until Culver City or the Bank is paid. That's what the facts are that were given to me or were told to me. Now, if it's not true, somebody else can bring out their facts. Okay? That will conclude me for now and I'll hand you the material.

SENATOR CRAVEN: Fine. Thank you, Inge, very much. I kept thinking about the cats, and I think we were in Santa Barbara...

INGE SWAGGERT: That's what I said, Santa Barbara...

SENATOR CRAVEN: Oh, well, I didn't hear you say that. I'm sorry. All right, Paul. What is there left to say, Paul?

PAUL HENNING: Senator, we appreciate you having these hearings. They are very necessary so that the residents can purchase their parks. You know, sometimes we have off-the-wall ideas, and I have one of those off-the-wall ideas, and we can kick it around and see what we can come up with.

SENATOR CRAVEN: That's all right. The Wright Brothers had an off-the-wall thought, too, you know, so...

PAUL HENNING: Many of our homeowners, living in mobilehome parks today, are persons that sold their residential homes at a marginal profit in the 1970's and early 1980's. Well, today, you know, homeowners are selling their homes at monumental prices and purchasing mobilehomes in mobilehome parks. These homeowners have a great capital gain on the sale of their residential property. To help build up the state purchase fund for the homeowners in mobilehome parks, these homeowners may have the option of paying the state capital gain tax or to deposit it in the state park purchase fund at 0 percent for a period of years to be determined by the Legislature. By putting this capital gain tax in the park purchase fund, it would exempt them from paying the tax at the end of the determined years it was in the fund. And another suggestion to that would be that a homeowner selling his home and moving into a mobilehome park, that the state collect the capital gain tax, and that 50 percent of that tax would be diverted to the park purchase fund. That's what I propose, Sir.

SENATOR CRAVEN: Well, would the shelter, if you will, be available to persons who sold and did not go into a mobilehome park?

PAUL HENNING: No.

SENATOR CRAVEN: Just those that chose to go into a mobilehome park?

PAUL HENNING: Yes, Sir.

SENATOR CRAVEN: Okay, very good. Have you got that, John? Because that's a very innovative thought, Paul. I'm glad we have people with financial backgrounds... Do you have anything further, Paul?

PAUL HENNING: Well, I just want to refer to SB-95, you know, it gives the park owners some leeway on that state capital gain and that sort of gave me the idea for this.

SENATOR CRAVEN: I see. Well, John, I think Paul has one bomb a day and he just threw it. Very good. Thank you very much, Paul. Thank you, Inge, nice to see you again, too. Dexter Goody, California Association of Mobilehome Owners, and Dexter's from San Diego. Good afternoon.

DEXTER GOODY: Good afternoon, Senator Craven, members. I've heard a lot from the GSMOL members, and I don't want to be repetitious any more than I have to. I'm here to address you because we feel that we do need bond monies. It's your bill, it should go forward, with the exception of little corrections like I've asked Senator Ayala to take care of this morning, which he did, and other things so that it doesn't come out wrong for mobilehome owners again. The thing of the redevelopment monies has been addressed here a little bit this afternoon. Twenty percent set aside redevelopment money is mandated for moderate to low-income housing, and we are not seeing the use of that in the cities and counties toward any mobilehomes, as far as buyer to purchase or towards rental assistance for those people that are eating cat and dog food because they can't afford the rents in these rental parks. Some cities and some counties have the very minimum, and I would like somehow to see some kind of investigation into that, because I know the State has mandated those monies, the 20 percent state set aside.

SENATOR CRAVEN: Dexter, have you ever inquired of our county, relative to their use of the redevelopment funds?

DEXTER GOODY: In San Diego? Yes, we have. We're in the middle of it now, and it is not being used properly, and that's as much as I want to say today, until we get into facts and figures. I don't want to put myself into jeopardy or anybody else in jeopardy.

SENATOR CRAVEN: Fine. I don't think you've put yourself in jeopardy.

DEXTER GOODY: But the 20 percent set aside I have seen used for rental assistance - Inge just referred to one that was used in Culver City - but you can count them on your hand, and they, again, the mobilehome issues seem to be pushed aside when it comes to redevelopment and set aside funds...

SENATOR CRAVEN: There never has seemed to me to be a relationship along mobilehome lines when it comes to redevelopment. It always seems to be other or more conventional housing.

DEXTER GOODY: Correct. They're building condos or apartments or something, or building up their downtown sections or whatever, instead of taking care of medium to low-income housing, which is mainly where the mobilehome living is ending up in. And these are what we're trying to protect, and the statements that I read in your report here, what was going on in these communities - one of the statements was that the mobilehome parks were a bad risk, which Maury and others have addressed here this morning. But I'd like to refer to an article printed in February 7, 1991 in the newspaper, "The safest mortgage investments were mobilehome parks. The survey showed no mobilehome park loans in California were tardy during the fourth quarter." Well, to me, that just tells any investor that these are good investments - mobilehome parks are a good investment. They're not something any of them should be backing away from except maybe the complication of what Maury was talking about. But, other than that, no. Mobilehome parks are good investments. They're good investments to the state, to the cities, to the counties, and to the private financier, because we, the mobilehome owners, do pay our rents, whether we own the park or it's a rental park. And, therefore, the income is guaranteed.

That's number one - low and middle income homes are unavailable - especially in California - and I have two more articles to quote on that very quickly. I'm not going to take much of your time today. This is on the park in Rialto - as Senator Ayala knows - he's been there, "Rialto established a mobilehome park for low to moderate income seniors that could serve as a model for communities throughout the county. Similar projects could help not only seniors but newly marrieds who otherwise wouldn't be able to afford a home. The Rialto park was built with public funds (as you heard) and will be owned by the city. Rents will repay the cost of construction and upkeep. Many cities have enacted ordinances to limit mobilehome rent increases but this hasn't proven to be a panacea for those on a low fixed income."

The other article is Jack Kemp on affordable housing on August 18, 1991. "At every level of government, a stealth bureaucracy is choking off the supply of affordable housing for low and middle income Americans and adding an invisible premium to the cost of all housing." We all know that that's going on. We have a solution right here in our midst and that's mobilehome parks in the moderate and low-income housing problems in this state or any state. Now, they should be preserved as affordable housing, and we are supposed to be the most aggressive state but, yet, the state of Vermont, way back on December 30th, came out with an article - "Instead, a nonprofit agency of the Vermont State Housing Authority bought the park for $1 million from the owner in Montpelier, built in 1972. The Agency Housing Foundation Inc. is also helping tenants to form a co-op to assume the park's title and mortgage. Sandy Pines is the sixth mobilehome park built this year in Vermont. The groups and the state have identified mobilehomes as an important source of affordable housing and have joined forces to maintain and increase the stock for low and moderate income residents. The state's policy is to keep our people in the homes they're in" - I'm briefing that but you're welcome to copy those articles if you haven't seen them. The bonding, the $5 for each section, as Maury was talking about - now, my understanding, Senator Craven or John, if that is only charged to people that are on so-called vehicle tax, what about the people on property tax? All the new homes going in are on personal property tax. Am I right that these $5's are only charged to the ones that are on existing or the older homes?

SENATOR CRAVEN: Vehicle license fee...

DEXTER GOODY: So, if the amount was raised there, you're raising it on exactly the people that it shouldn't be raised on, which has been brought up here today also. Because those people that are on tags are usually the older residents and the older equipment and the ones that are on fixed income, and the ones that need help not to be hit with more taxes on their home. Now the county property taxes or the fee on the sale of a home, as Maury was referring to and Inge was referring to - I will agree with that - transfer fee - I believe we have Washington State people here in the audience, and they have a transfer fee up there - and so these are things that can be done besides your bill. Thank you very much for your time.

SENATOR CRAVEN: Thank you very much, Dexter, it was so nice of you to be here. Would you like to take a break for five minutes? All right, let's do that.

.... (10 MINUTE BREAK) ....

SENATOR CRAVEN: Let's get back to business. Mr. Spellman is Spellman Bonding Company, La Jolla, as is Mary Stansberry, and Mike Kiss is Summit Partners of San Diego, and we're all very happy to have you here. Why don't you begin.

BOB SPELLMAN: Thank you, your Honor. My name is Bob Spellman and, first, I'd like to thank you very much for having this Committee hearing today, and for inviting us to participate in the hearing. Spellman and Company is a municipal bond firm that specializes... is a securities firm that specializes in underwriting municipal bonds. We have been involved in the underwriting of a number of municipal bond issues for local government to acquire mobilehome parks, and I think that's why we have been invited here today. The participation of those municipalities has provided, basically, two things: one, their good name and their tax-exempt status permits these transactions to get into the municipal bond market place; the second thing that they have provided is some form of credit enhancement to the bond issues, which have been sold to acquire the mobilehome parks. They have used, in some cases, the city general fund, under lease arrangements, and, in other cases, they have restricted their participation to the use of the redevelopment agency's low and moderate income housing fund. The transactions in which we have been involved have provided financing both for the long-term ownership of these mobilehome parks by the city or redevelopment agency, which issued the bonds, and, in other cases, have provided for only an interim financing vehicle, in order that residents can acquire their mobilehome spaces, after the 'condominiumization' of their mobile... subdivision of their mobilehome park. We are following with interest the bill that you have introduced and, obviously, support it very much. I think it would be a boon to the extent that it goes. The transactions that we have been involved in, in San Diego County, have accumulated to about $70 million. The purchase price of the mobilehome parks has been in the range of $5-20 million, so one concern that I have, obviously, is how far the $25 million will stretch. One of the comments that was made... or one of the items that was mentioned in the handout that was provided by the Committee is the potential of their being some kind of an insurance program that would be similar to FHA, which would provide the credit enhancement to make these bonds marketable, and I would like to say that that would be extremely valuable in making these municipal bond issues marketable. The one problem that we have is getting that credit-worthiness of the mobilehome park acquisition up to the standard that other municipal bond issues have in that market place, and it's my belief that there is at least some level of insurance which could be provided from existing resources, which would be sufficient to provide credit enhancement for additional parks, above and beyond the $25 million mentioned in your bill.

SENATOR CRAVEN: Bob, in the spectrum of that which you handle in the bonding field, are you running into defaults on any of that at all?

BOB SPELLMAN: No, sir. It's our perception that mobilehome parks are excellent credit risks, and that the residents are there to stay, and that the mobilehome park spaces are at a premium, and that there's competition, in fact, for access to those spaces. So, although the programs that we have been involved with have been relatively new, we don't have the 5- or 10-year history to observe potential delinquencies, we are very confident that we will not see such delinquencies.

SENATOR CRAVEN: Very good... fine. Dear, do you have something to add?

BOB SPELLMAN: Ms. Stansberry is here to answer any particular questions with respect to specific programs.

SENATOR CRAVEN: I see. Okay, John?

JOHN TENNYSON: One of the criticisms of Senator Craven's SB-501 is that it might not work because it's not project specific. In other words, when you handle a revenue bond at a local level, it usually is to fund a specific project, whereas we're talking about a pooled arrangement here, basically, where the $25 million would be presumably utilized to fund a number of parks. Do you see any way of overcoming that problem?

BOB SPELLMAN: It's my understanding from reading the bill, that the bonds would ultimately be secured by identified revenues, which are the fees that are available to be pledged to these bonds. So investors in these bonds might not know the specific parks that are intended to be acquired or to be financed under this program, but they would have access to data relating to the reliability of that revenue resource, and, it's my belief that the bonds would be ratable on the basis of that resource.

SENATOR CRAVEN: It really doesn't have the specificity that other bonding situations have...

BOB SPELLMAN: That's true. We have been involved with mobilehome park bond issues that provided for pools that were city-wide, and we succeeded in getting those bonds rated with what I believe is actually less security than is provided by your bill, Senator. So, it's my belief that you would...

SENATOR CRAVEN: When you get into the municipal area, you have an area of operation, and it's identifiable, at least, to some degree, because it's kind of pooled. This is pooled but statewide.

JOHN TENNYSON: How many parks have you been involved with where revenue bonds have been used?

BOB SPELLMAN: Three bond issues for, approximately, six parks.

JOHN TENNYSON: Are these all non-profit...

BOB SPELLMAN: These are municipal acquisitions, so the redevelopment agency typically, or the city are the nominal owners of the parks during the periods of time during which the bonds are outstanding.

JOHN TENNYSON: And the bonds are tax-exempt... federal tax-exempt?

BOB SPELLMAN: Yes, sir.

SENATOR CRAVEN: Very good. All right. And then, Mary, you have nothing further to add?.. very good...

SENATOR DILLS: I'd like to inquire if his shop had anything to do or has anything to do with the City of Gardena?

BOB SPELLMAN: No, sir.

SENATOR CRAVEN: Mike, do you want to give us the benefit of your thinking?

MIKE KISS: Yes, Senator and Committee Members. I am an outsider here pretty much, but I am going to say that I do agree with Spellman & Company's assessment and, probably, Maury Priest, who was here a little earlier. My company, Senator, does finance in the public markets. In other words, I go to the banks, lenders, institutions, and these people are concerned with rates returned. When I've gone to them, my company's been involved when there's several hundred million dollars of transactions over the years - when I go back to these people today, as I have been for the last six months, they've all said, "Gosh, that sounds really interesting, that's really great - a resident-owned park." And you explain it to them and they get really excited about it, but then they say, "Aren't we funding a start-up corporation here, and you're asking me to give you $8 million for some people who have never done this before?" And, through brainstorming with all these people who have financed hotels, motels, retail, apartments, and all these things, they said, "Can we get a guarantee from somebody?" And, so through brainstorming with these people, they said, you know, after World War II, the government gave guarantees -

which today we don't know them as that but FHA, VA, and all those things are technically guaranteed - and, if the state would guarantee, for a period of time, a portion of the purchase, we'd be willing to step up and finance these conversions. And I propose something in the neighborhood of a five-year self-liquidating guarantee for 10 to 30 percent of the purchase price, and, so, as the residents get used to paying, and they get a credit history, the guarantee goes down and, virtually, eliminates itself. With that, I think we should have probably a five-year program of homeowner associations - of bringing it up to the standards of the state. In other words, these people are specifically made to make changes initially, but, over a five-year period, they could bring the park up, over a five-year period, the guarantees decline, and, at that time, it's a very viable object. I think if you give guarantees, there is absolute tons... truckloads of money out there to finance these parks. This real estate is very stable. All these lenders who have been involved in these fancy office buildings that we see downtown here today would love to be involved in single-family residential, and they think this is a very stable client. It's just these folks are a kind of a new borrower and they don't have a track record. So, I think the guarantees would bring a tremendous amount of private money here. I've never been involved in a bond issue, but Mr. Spellman has said the same thing. He's interested in some guarantees and I think Mr. Priest said that earlier. And I think a declining guarantee, and not for the whole entire amount, would be sufficient.

SENATOR CRAVEN: Who would the guarantor be? State of California... well, that's a, I think, a very worthwhile thought, there's no question about it.

SENATOR DILLS: I'd like to inquire whether or not city dads or county supervisors are very enthusiastic about a mobilehome park coming in to their community tax-wise... potential tax collections?

BOB SPELLMAN: I think that, from my limited viewpoint, Senator, I believe those people initially are not that excited, but, once they see the benefits of the park, they will become very excited. Mobilehome parks are good generators of a lot of things over a period of time.

SENATOR DILLS: Sales tax and other things...

BOB SPELLMAN: Yes, I think so.

MIKE KISS: And, if I may, Senator, to the extent that the cities are satisfying their low-income housing requirements by assisting these mobilehome parks to be installed in their cities, they are, in fact, meeting one of their objectives, stated as a city, within their housing assistance program.

SENATOR CRAVEN: I think mobilehome parks, Ralph, in a general sense are productive, although there was a time when they were not looked upon as such, but I think, under present modes, I think that they are. And one thing that cities can say, I think, is the fact that mobilehomes are not generators of problems for cities or counties either. They have their own road system... they're pretty much a unit unto themselves, and they have very little to do with the city, really, or the county.

MIKE KISS: Senator Craven, I'd just like to add that the people that I have talked to have all said we believe that these parks are good investments. We believe these owners will be good owners of the parks. It's just that we're a little nervous if it's a mutual benefit corporation. You're asking somebody to fund a start-up corporation with no history. One of the things that might go into a state guarantee program is that the park has to have a professional management company to manage the park for a period of time to bring it up to snuff while they're under this guarantee program.

JOHN TENNYSON: What do you mean, "bring it up to snuff"? Is the implication that some of these parks... is this part of the problem with the banks and the financial institutions? Is the implication that these parks, in many cases, are run down and that their infrastructure needs to be improved? Is this what you're driving at?

MIKE KISS: John, in a portion, I'm not an absolute expert in that area, but some parks need some maintenance work and, as I've seen in my limited view, that parks are sold by owners as is, and so, if there is road repair or electrical system repair, there has to be a reserve study, as in a homeowner association for a condominium. That reserve would take care of say, the clubhouse is going to need a new roof in 5 years and we're going to take so much out of reserves to be ready to do that in 5 years.

JOHN TENNYSON: Can all that be done in 5 years, if they have to have sewer improvements, and a host of other things, gas pipelines, perhaps, the road improvements?

MIKE KISS: I think it would have to be on a case by case basis, and I think there are standards from MPAP where they inspect parks that would have to be incorporated into this guarantee program.

SENATOR CRAVEN: Very good. Thank you, Mike, very much. That's it. Next, these are persons involved with park conversions. They are consultants in the field. I don't know how many are with us today. First is Gerald Gibbs who is an attorney from San Clemente; Sue Loftin, also an attorney, Cal Park Properties, Costa Mesa; Marguerite Ferrante, Corporation of Affordable Communities & Homes, San Diego...

MARGUERITE FERRANTE: ...(inaudible)...

SENATOR CRAVEN: Well, that's all right, Marguerite, I'll do a laying of the hands ceremony on you here... (laughter)...

MARGUERITE FERRANTE: Don't think I wouldn't appreciate it.

SENATOR CRAVEN: Well, Marguerite let's hold... and we'll have the three here, this is presumably Jerry Gibbs and Sue Loftin... Huh? And, Mr. Summers... Amos Summers. All right, fine. I don't know that I introduced Amos, Mobilehome Park Conversion Consultants from Escondido. That's a town that I know very well. Who's first? Amos, do you want to kick off?

AMOS SUMMERS: All right. Senator, Members of this Committee, I have the feeling that this Committee really has not heard evidence as to really what happens in the park in the conversion. You've got a lot misinformation that has been presented to you, and I want to straighten a few things out. Number one, the MPROP program is very successful. Sue and I have been involved in conversion of 12 parks, although now we are separate but we used to be partners. I don't know of any one resident in all those parks that has any regrets regarding the conversion. They are all very satisfied. What we have done is we have converted parks to condominium subdivision interests, individual condominium subs. That is different from other types of conversions, and the reason we are only doing... we were doing conversions as subdivisions is because, in the long run, the residents get an interest in the land that they can get separate loans for, or their buyer, later on, can obtain separate loans. That is not possible in an area where there is a corporation or... (inaudible)... so that makes a big difference about the investment value of that person who's purchasing the park. In order to do that, these residents have to comply with the review of all the documentation, not only by the city that sets up the subdivision map, but subsequently to that, it also gets reviewed by the Department of Real Estate, and the Department of Real Estate sets a budget that takes care of the problems that the gentleman sitting here before was eluding to as far as the condition of the park. The park is inspected, a budget is prepared, DRE rechecks the budget to make sure that not only can they keep up with the costs of the park, but they set-up reserves to maintain the park or improve the park if necessary. So, the residents who buy a subdivided park, in my belief, know what they are getting into and it's provided for. So that's one of the reasons that we... that's the main reason the financing is easier to obtain and is the reason we get involved in that.

But, we have problems. The problems that we have in the park is that we have to go through three governmental agencies. We have to get, number one, the participation by the city as a co-applicant under MPROP to assist low-income residents in the park to be able to afford to purchase. Then we have to go to HCD and make the application and, after we get all that done, we have to go to the DRE. That takes a lot of time and the reason that the conversion into corporation shares started was because of the length of time that it took originally to do all that processing. Well, a lot of bills have passed the Legislature that made the conversion into condominiums much easier and much less expensive than it was before. In my opinion, conversion, in most cases - unless the park is primarily a low-income park - should go into a condominium conversion.

Now, the problems that we have is there is not enough money. That's what the purpose of this bond... but the bonds are not going to help mobilehome park conversions into condominiums because those funds cannot be used for the individual purchase of the individual spaces. We need funds to provide for that. Now the increase from $5 to $25 for the fee, even though GSMOL is against it, I don't think anyone really brought up the fact that the $5 fee remains for the low-income resident. Only those residents in the park who do not qualify under low-income are going to have their fees increased... their rates. That makes a big difference because we're only asking those people who can afford it... relatively can afford it, to come up with those funds, so I'm not in agreement with Mr. Priest on that. The other thing that I want you to recognize is that that a $20 per space increase in fees is really an insurance policy, that when those people, who are not ready to convert now, 5 or 10 years from now, want to convert or have an opportunity to convert their park, they'll be funds available for them to convert it when they are ready or when their owner's ready. The problem with mobilehome parks is not all the problems that we've discussed here today, the main problem is getting an owner to agree to a fair price. Now that's something that we can't resolve at this point. There are other things that we need to do but, putting that aside, we need to be in the position, once we do get an owner to agree to sell the park, to move quickly and get the park converted, and that's what the purpose of all my work has been with the State Assembly in connection with revising some of the subdivision ordinances that are the requirement for subdividing the park. And, I think we've gone in the right direction. Those are the kind of things that you really need to understand. It's very simple to say, well the $25 is not fair, but it is in cash reserve for the future ability of those people to take advantage of the system. We need to have money.

For instance, I have a park that I'm working on now that I'll be submitting to the Department, 142 spaces. Of the 142 spaces, there are 46 residents who qualify under low-income. If we assume that their housing costs will be limited to 40 percent of their income, 14 of those residents will have a reduction in their monthly housing costs under the MPROP, anywhere from $60 to $250 per month. That is a significant amount for people who are currently paying anywhere from 40 to 110 percent of their monthly income for housing. That's why this program is so wonderful. It really gets these people to be able to live - once again, instead of living off of dog meat and cat food, of which we have seen happen. In the first park that we did, this woman came up and hugged Sue's partner and kissed him for making it so she was able to buy a hamburger. And, when we enable those people to reduce housing costs, that is what is significant, and we need assistance. We need more than $2 million a year. We probably could use $15 million a year, at least. It may take awhile for us to use the $15 million at once, but we need to go in that direction, and that increase in price of $25 is one way, the increase of transfer fees is another way, and the bond is another way.

Now, I am the one who asked Senator Presley originally to consider a bond bill, and I think this is the result of the conversation at the start with Mr. Presley. I'm not very sophisticated on financing and bonds, so I did not know about the problems and the limitations that the bond issue will have as far as converting a park. I know more now about it but there are some things that the bond bill will do. And, let me explain to you what the problem is. When we go to a bank and ask the bank to provide the residents' association that has zero credit rating with a loan, they will, in most cases, limit the loan to approximately 80 percent of the value of the park as appraised. The regulations of the Department of Real Estate are such that it precludes residents in the park from using their money to purchase the park until such time as the Department of Real Estate has issued the white report. So, it's a catch 22 - where are the residents going to get the money? There is an answer there - sometimes we get the city to contribute, or the county to contribute, but many cities in the county have used up their funds or for redevelopment funds in other areas, and they don't have the money, so where are they going to get it? If they're not successful in getting the owner to take back a second, they have to get another source and the source could be the bonds, because the bonds would permit a loan from what is known as the conversion loan - it's a 3-year loan from the Department out of this bond fund to go to the homeowners' association in the purchase. That is a very significant contribution. The reason it has not been utilized to date is that there was a requirement to abide by the policy of the Department regarding displacement of individuals. That policy now has been spelled out in AB-1863 where everybody knows what the requirements are as far as displacement and how much the rents can increase. If that bill gets signed by the Governor, we will have that problem resolved, and now we will have no problem of obtaining a conversion loan from the Department. So, I'm for the bill to that extent, even though I will not be able to use any proceeds of that bill in the conversion directly. But, once the park is converted, I have no problem getting major banks to participate and provide the residents with individual loans. It's up to that point, for the purchase of the park, that's where the critical point is, and that's where we need assistance.

SENATOR AYALA: A question for the gentleman. I've visited between 30 and 40 parks last year, and a lot of questions surfaced, of course, but not ones with the conversion to condominiums ever come up. In my area, which is San Bernardino County and part of Los Angeles, I haven't heard of one conversion to condominiums. How does that work? What happens to the coaches once they...

AMOS SUMMERS: Senator, that's a very good question, and I think you need to know. What happens in the conversion of a park will take a minimum of 6 to 12 months in a condominium conversion. We go to the city or the local jurisdiction, apply to the city for subdivision of the property. We process the map and, during the processing time of the map, after the tentative map is approved, and we make an application to the Department of Real Estate for the white report. During all this time, we get an appraisal of the park, we get an inspection of the park as to the improvements that need to be done and an inspection as to the hazardous material that may be stored in there - we get a budget prepared to submit to the Department of Real Estate so we know what we have to set aside monthly for the maintenance of the park.

SENATOR AYALA: But my question is, what happens to the residents while all this is taking place.

AMOS SUMMERS: The residents continue living in the park.

UNKNOWN VOICE: Senator, it's an air space condominium. Describe air space.

AMOS SUMMERS: Oh, when you think of condominium.... oh... what happens is that you imagine a cube surrounding the lot, along the lot line. They have an invisible cube in which they have total control... they have complete use of that cube...

SENATOR AYALA: The use becomes that of a condominium but they retain the mobilehome. Oh, I see. I wondered where they went during this conversion.

AMOS SUMMERS: In addition to that, they own 142, in the case of the park, of the total land and improvements. They have something that the banks know, this is something that's secured. Why do banks make the loans on that? Because the banks not only take the mobilehome as security but they take the lot, the condominium lot as security.

SENATOR AYALA: I thought you went in there with a bulldozer and gut the coaches and .... (laughter)...

SENATOR CRAVEN: Thank you Amos, very much. That was very interesting and very informative as well. Sue, do you have something to add?

SUE LOFTIN: Yes, the unfortunate thing, to try speaking after Amos is there's never much left to say, but I'd like to break my comment time to two categories. First, remarks regarding the need, and I'm not going to go into a lot of detail on that - Jerry Gibbs is going to cover that. The one item I do want to point out... every time I come to one of these hearings, people ask how many applications are there, how many people are applying, and I know, and I can speak for myself, I advised 4 parks and both the owners and the resident groups, that, given the number of applications that were coming in this time, that either another mode of or method of financing the properties would have to be arrived at or they would have to wait. And, I think that everyone who works with the program is in the same position, so that to ask how many applications are coming in, I don't believe is a good guide as to what the need for the money is.

My other focus of comment has to do with the position that was put in the documents that the private sector is reluctant to commit additional funds to park conversions because they're perceived as risky investments, then why should the state be called upon to take the same or greater risk. In terms of funding from the private sector, at least, myself, personally, that's never been a problem, whether it's been to get a conversion or gap loan blanket loan or for the take out loans. And I want to run through again what the issues are in both of those items. In the mobilehome parks, without regard to how they look, you walk in and there are some that are beautiful and you anticipate that everyone in there is going to be well off financially. In the parks that we've worked in, the lowest percentage that we had was 10 percent, the highest percentage was 49 percent of low-income, the average came out close to 30 percent. So the issue, in terms of funding these transactions, has to do with how you blend the availability of conventional dollars with funding that is affordable for the low-income resident. In the blanket loan, conventional financing is available. The payments along with the maintenance requirements due, in most instances, render the cost greater on a monthly basis. For the low-income residents to participate and to provide for affordability, their portion of the acquisition needs to come from low-income dollars or governmental dollars from some sources. The conversion loans are the loans where a resident group purchases the park and then subdivides it - it's very similar to the blanket loan except that it has a shorter term - it's usually for 2 or 3 years - then that loan is paid off with the individual loans for the individual residents. And, again, it's the same issue. There's a portion where you can get a conventional lender but that is not available for or will not provide for the low-income resident. The take-out loans or permanent individual loans can apply in two different scenarios, depending on the financing - one has to do with the stock cooperative, where an individual program can be established, the other, more commonly, the condominium. And, again, conventional lenders are not the problem in that instance. The issue that we are all running into on behalf of the residents is that there are not funds available or not sufficient funds so that the low-income households can participate. In terms of the number of spaces that I've been involved in in addressing the issue of risk, it's been 2,127 spaces, and there has never been a default under either the blanket or the individual take-out loans. The problem is to maintain the affordability of the acquisition for the low-income resident in terms of risk from the conventional lenders, whether it's been a mutual benefit nonprofit association that's had $10,000 in the bank and was formed, as Amos and I have done on occasion, the day before, that's not been a problem. It is, again, geared to how do we fund for these people.

The programs that have been proposed - first of all, the bond in the 501. I think that is a critical component in what I'd like to talk about as a basket of types of funding programs to address the various funding needs in acquisition. The bond is an important component - it will allow for the conversion loans and for the blanket loans in terms of providing permanent financing on the blanket or interim financing on the conversion loan. There is simply not sufficient money in the MPROP program. To do that, you have parks selling anywhere from $1 million to over $20 million and to be able to come up with that low-income requirement for acquisition, there simply is not the dollars.

The next basket of dollars that's required is for the permanent loans for the individual households, depending on which mode of ownership. For that mode, again, the MPROP has been the sole source of state funds, some cities and counties have participated, and I personally would very strongly recommend that we utilize both the licensing fee, and I think that, perhaps, listening to and addressing, there may be some compromise position with regard to the total dollar amount, but I do believe that that is a critical element as well as the transfer fee. The comments that I've heard from certain people in the industry is that that's going to kill sales. Well, personally, and having looked at the sales, I don't believe a transfer fee in the dollar amount of $125 - and the proposal is to have it on a percentage, so, depending on the cost of the home, the $125 would be a maximum, so that addresses the issue of affordability for the low-income resident and the low-income home, but that does give an ongoing and accruing fee. Additionally, that fee becomes part of purchase price that can range anywhere from $5,000 to $200,000 and I don't believe that's a significant dollar amount at that point in time. I appreciate very much the opportunity to talk to you today. Funding, in all three categories, is critical to maintain the affordability of these projects so that low-income people can participate.

SENATOR CRAVEN: Thank you very much, Sue. I have to come away with the thought that when you were associated with Amos, you and Amos must have been a very formidable... formidable group. But we just appreciate it very, very much. Yes, Ralph?

SENATOR DILLS: I think it was Mr. Summers who made mention of 142 spaces. How does that come out in terms of acreage... how many acres would you have to have for 142 spaces?

AMOS SUMMERS: Senator, I believe that park is about 19 acres.

SENATOR CRAVEN: Okay, very good. Jerry?

GERALD GIBBS: Senator Craven, Senators, we've been involved in some eleven conversions so far, and we have a batch in the mill which add up to many, many more dollars than MPROP can handle at the present time. We're concerned about that; we're also concerned about the numbers of different agendas that are running around the room today, and I think we could all benefit by speaking to one another collectively and speaking about some of the problems that have been discussed today. I think that, by and large, conversions, when accomplished properly, address many of the issues. As you mentioned earlier, when you do a condominium, you must have a phase one environmental report, you must have a budget - all of these things are accomplished in the successful park conversions, and I think the worries that have been expressed by Inge, perhaps, can be brought to rest there.

But, I think what's so very important about this is that what we're talking about is not funding the whole park; we're really talking about those who just can't afford to buy. Under any circumstances, given a year or two, they will be driven from their homes. Rent increases, even under rent control, are going up so rapidly that they will be taken from their homes or the homes taken from them. This is really the last bastion for them. If they can buy the park and MPROP can operate correctly, then those persons will be able to stay in their home. And, even though we have in some cases virtually 100 percent financing, what we're financing is that increment that needs it so desperately - the old and the very, very low-income young people. So, it's important that we understand that.

The program, as it presently exists, is producing about $3-1/2 million for this year and probably about the same for next year. At the present time, we've counted up amongst the group that we're familiar with, and we know of at least 10 proposals coming in - of those 10, there'll be a mandate for at least $8-9 million and we can't divide the baby up in that fashion. So, some of those parks will not convert. Unfortunately, as Amos said, when an owner says "I want to sell," he wants to sell now, and, with this program, we've been able to accomplish it to date. There's always been enough money. There's not enough money now, and, this year, we'll see some parks fall out, owners unwilling to sell who will sell to other investors, rather than waiting for these people.

Now, the solution can still come to pass if we can get urgency legislation coming toward the first of the year. I think, if those of us who lose out on our proposals, can go honestly to an owner and say the Senate is working diligently toward providing an alternative source of funds, then we can get them to waive the short period of time. But we're talking about an awful lot of people in 10 parks that will lose their opportunity. I know that this coming year, both Sue and I have talked about deferring applications, but I know I have another 10 programs that can come in this coming year - parks that would be ready, and, again, there's only $3-1/2 million without SB-501 or something like SB-501, so we must address it and address it rapidly, I think.

In terms of what's happening and what we should do, I think, first of all, self-help - we need the transfer fee probably more than anything else immediately. I think that the license fee could be raised to some degree or another; perhaps, not the $25 discussed, but some amount, so that the people in the mobilehome park are, again, contributing. We're in a tough time within the state financially and everyone's trying to push down the budget... as much as we can generate within the industry and within the people who live in mobilehome parks, I think that would be good.

The SB-501 has been covered very nicely by Sue, and I think there are some parks that we have to understand will never convert to condominium, although we'd like to see them all get that way, there are the small parks out there that will just never be condominiums. And those parks are like the Culver City park where it's 100 percent financing, and none of those people could raise 20 cents to buy their park with. They are now park owners and they are operating it as a result of the redevelopment agency of the City of Culver City and the MPROP program, and that program in that particular park, they're getting 5 percent raises for 4 years in a row. After that, the rent levels out and the rent for the people who are benefited by this program are dropping about $60 a month. At the end of 15 years, the commercial loan is paid off, MPROP and the City loan gets paid off in the next 14 or 15 years, and then they're going to own it 100 percent free and their rents will drop down to about $60 per month. And 30 years hence, $60 a month rents are going to be very low. So, we have to concentrate, I think, totally on that increment of financing. We have to worry about those persons who can ill-afford to lose their home as a result of the continuing rent and those persons who will be benefited by this program. I think that SB-593, the Roberti bill... we'd surely like to discuss with Senator Roberti some provisions to cover mobilehome parks in that program. There are 4 or 5 packages there; it would be lovely if we could get some amount of money in that package for the mobilehomes. It's never been in any of the prior programs. I do not know of any additional dollars for mobilehome parks.

I think it's important that we try all avenues in this particular endeavor. What results is security for our seniors, first time homes for our juniors... it's an excellent way to maintain the standard of living that was once there when these people left, 15 years ago, their conventional homes and went into the mobilehomes. We can keep that up if we can get support. And, finally, I'd like to say that I think the staff has done an excellent job, and they give us all sorts of hell when we go in there with an incomplete package, and they do make us come up to standard, and they do inspect parks, and they do worry about the viability of the program. So I think if we would all, as a group, all of the interests groups would work together, I think we could come up with packages that would be excellent.

SENATOR AYALA: I have a question. You indicated earlier that, when conversion takes place, an EIR must be...

GERALD GIBBS: Not an EIR, no. A phase one environmental report. The banks require it. It, basically... a phase one environmental report is one where they investigate the property's history, photographs, title reports, everything in the world they can come up with to determine that there wasn't a gas station there or something like that in the past.

SENATOR AYALA: Okay, but you're not talking about something that has to be mitigated because of densities and change, and...

GERALD GIBBS: Lord prevent us from that, no.

AMOS SUMMERS: I want to add one item. I think AB-315 (I've forgotten who the author of it was) had a provision of modifying the redevelopment fund percentages. I don't know where the bill is but I thought that, perhaps, you would also consider providing that, of the amount of the redevelopment funds that become available, a certain percentage should be geared for mobilehome parks and not just dispersed generally in the city.

SENATOR CRAVEN: Thank you all very much. You know, it just occurred to me - this has nothing to do with your testimony but you're from Southern California. Did you fly up here today? (Yes) Well, you and a lot of others, perhaps, all of them here, have spent a lot of money to get here today and we recognize that we appreciate the fact that you took your time and your money to do it. That's very kind of you. The air fares are notoriously high. Well, Marguerite, have you done your studies to get your JD? Why don't we have Jerry Rioux come up as well. Now, Marguerite is the Corporation of Affordable Communities & Homes, San Diego. And Jerry is Rural Community Assistance Corporation, Sacramento, and he's a gentleman who's very, very familiar with the bureaucracy around here.

MARGUERITE FERRANTE: Senators, thank you very much for the opportunity to come today. COACH is an entirely new concept - it is a land trust - and we are only interested in the low, low-income part. One of the things that I didn't hear the consultant say for condo's was the price that each space is charged. I don't know what that price is - I have heard up to $3,500 a space - and, that's added onto your loan. These are things that low-income people cannot come up with. So, condo's, for the type of parks that I and COACH are interested in, is not that type of ownership. It's either co-op ownership or mutual benefit. I think that one of the big things that Golden State absolutely ignored is on how non-profits can borrow and how they can have 7 or 8 loans that have no payments except the bank payment, and then they have deferred payments of 10 to 15 years to allow them to get rid of that commercial banking loan, and then they come in with the 3 percent money and the 5 percent money or a loan grant. I just received a scholarship from... (inaudible)..., and I went on a 5-day training, and I was absolutely amazed at how non-profits can buy, and that money is there, and I'm sure that this is something that you're going to hear from Jerry. I think there's some education that has to be done here and it began with your first 3 speakers. It was an eye-opener to hear some of the things that were said, because, in effect, they were going to close down nonprofit parks or at the low-end parks. A hundred percent park is not a liability to the state. It is saving the people who can least afford to leave, and those people have to be protected. The state can do this at actually no cost because any guarantees that the state makes... no mobilehome park has ever been foreclosed on, and there won't be one. Where can they live in the atmosphere that they live now? And all of us should have the benefit and should be able to purchase our parks, and the bonding program is terrific. The City of San Diego has turned down the bond for mobilehome parks, because they said that ... what did they tell us, Jerry? They've told us so many things... I'm going to let Jerry end up with this and there are three things that I want to talk about - too, I want to tell you that... the good points.

I think the mobilehome money... uh, that the fees... I had meetings the second Tuesday and the second Thursday of every month and have had for the last 2 and 1/2 years for mobilehome problems in the City of San Diego and the County. One of the big issues that I brought up to my people was "how much could you pay?" Nothing in life is free. What can we do to protect ourselves, to help us open these windows wider, so that there's more money, because, now, we're getting more and more chances to purchase parks. And, without that window, the low, low-income, we have nothing. So, I did a survey, and my survey showed anywhere from $5 to $10 that the City and the County in San Diego would be for helping the mobilehome people. $25 is... I... I'm not talking and I'm not asking about low-income. I'm talking about the people who came, all income levels, that come to my meetings. And, this was the consensus over the last year. Secondly,..

JOHN TENNYSON: Question... You're talking about $5 or $10 more than what they're paying now? Per unit or altogether?

MARGUERITE FERRANTE: No. They pay $5 now. They can pay up to $10 extra. So it would be $15 per unit. And I felt really proud because my little home people are willing to bite the bullet and to say, "we want to help ourselves," and, by helping ourselves, we're helping everyone. So, I wanted to get that in and make sure that you're aware of this - that there are people in the mobilehome industry and who live in homes that are willing to put more money up to help themselves. The biggest thing, I think, that all of the parks are realizing now is that the only way that there will be parks is if the residents buy them. So, what we have to do is we have to have inventive, innovative programs like 501. It's a marvelous bill, Bill.

<u>SENATOR CRAVEN</u>: Well, thank you. You know, one of the things that we have not really talked about, and generally we don't talk about it, is the political attitudes and atmosphere that surround any piece of legislation. There are persons who serve with Ruben and Ralph and myself who don't have any concept of mobilehome parks at all, because they live in very heavily, dense urban areas where there are no mobilehome parks. And, those people, they just... they're not caught up in the problems and don't want to be bothered with them because their constituency doesn't reflect that problem. There's also a thought that some people say, "well, how come you're doing this for mobilehome people and you don't do it for apartment dwellers or, you know, people that live in conventional homes and whatever?" And, also, they have a tendency to say, "well, you know, why don't they try to help themselves?" So it becomes sort of a political judgment, somewhere along the line, and anytime the people to be helped can help themselves, to some degree, it is a good selling point for Ralph and Ruben and myself when we get involved in mobilehome legislation. You have to have something that's really the good, you know, the good hook that you can hang your case on and, if it's all one way... and, I'll tell you, when you mention bonding around here, people just go right out through the overhead, because they say, "we're bonded right up to our eyeballs", and it becomes kind of shakey, and we're always worried about our bond rating, which heretofore has been excellent. But we're very, very much concerned about it right now, so when we talk about bonds, that has a tendency to spook a lot of people. I mentioned those things because they are the real facts of life around here that we have to contend with. If you went in and just really could argue on the merits of the things and have no histrionics involved with it, it would be very, very simple. But you ought to hear Ralph Dills on the floor - I mean, he talks about his voice is failing him - well, he's got enough voice to bang it across whenever he wants to because he has to get out there and sell, and we all have to do that. But we have to have something that is very marketable to the general group of people that we serve with. The Senate has been, I think, very, very kind to us in the mobilehome field. Dan Hauser over in the other house with his committee there on housing has done an excellent job. He's a very, very fine man. He's very, very diligent and has been very, very helpful. So, heretofore, I think we've been fairly successful, but I mentioned those things just so you'll understand that it's all not sweetness and light.

MARGUERITE FERRANTE: Let me finish telling you about COACH. COACH goes into parks that residents ask us to go in and, on the low end parks, what we do is we present a program to them that the land trust will purchase the land under the park and give them 99- to 100-year leases. They have absolute control of their parks. There isn't a lender today that will let - and I don't care what people say because this is a fact that happened to me because we're trying to purchase our park -

SENATOR CRAVEN: You still down in Linda Vista?

MARGUERITE FERRANTE: In Coastal Trailer on Marina Boulevard in San Diego.

SENATOR CRAVEN: Well, I've been there with you a couple of times, but I didn't know what to call that... I know it wasn't La Jolla. (Laughter)

MARGUERITE FERRANTE: No, it is not La Jolla. It's uh... Mission Bay is where I live. The thing is that a bank will not talk to a resident organization. They will not talk to a nonprofit. They want to talk to the converter. They will not let the people who live in the park do their own negotiations, and, if the park is lucky in their selection of a converter, they can be very successful. If not, it can be a tragedy and there are many horror stories out there that I can give you names of parks that have trouble because of the things that happened during conversion. It doesn't mean that they can't be corrected because most of them are now being corrected, and the people are aware of this, and the people are becoming more and more aware. The banks want professional management to come in. I think one of the biggest things - and this is an aside to you, Bill - I would like to see a bill come in for special management of parks. The WMA has a school for their park managers, and we all know the disasters that's happened and the horror stories that have happened from managers. So that's just an aside but, to get back, I have told the parks that I have gone into - we have 3 parks in escrow - and what I have said to my parks is "nothing is free, everything comes with a handle, and, in order for us to keep your land cost down and your space rental down, you have to volunteer to pick a percentage of what you will resell your home for", because, Bill, if you go in and you give them under $200 a month rent, an 8-wide could sell as high as $60,000 because of the low rent. So, what we have asked the parks and what the parks have agreed to is 10 to 15 percent over what they've paid and any rehab that they have done, that they have receipts on and the work has been done, that keeps that pool of affordable housing forever. And, this is what COACH does.

Now, I want to tell you what I think the bonds are going to do. One, I think, the good points are availability of funds, fixed costs, interest rates affordable - right now mobilehomes, regardless of what the banks say this 8 percent interest - mobilehome percentages are now between 11 to 13 percent. Mobilehomes and mobilehome parks really need the seed money... the mobilehome residents need the seed money and the gap money in order to make the loans. I think one of the big things is, and I think people miss it, is that the bonds are going to come in back of any bank financing, because first is your bank or your conventional lender, second is the state, and then third is the local government and any other grants or loans that you can get for the nonprofit. So, what I would like to see, I'd like to see the program go through with the one recommendation of Senator Ayala's that people like myself that are as chair person of COACH, we will be applying for more than one park, and I don't want to shut the door on low-income parks because of that. Second is I would like to see, as Mr. Gibbs, the attorney, recommended, that there is some kind of communication. There, evidently, is a lag about non-profits, and I think it's important, and I wish you all the luck in the world on this. It is a step forward, it is innovative, and I don't want to see a tax put on for $125. Washington State does it, Virginia does it, but I think California's mobilehome people are willing to come up and I think that's responsible. Thank you for letting me talk with you today.

SENATOR CRAVEN: You're entirely welcome and I appreciate your words of encouragement, but, one admonition, don't blow out the votive lights.

MARGUERITE FERRANTE: I won't... and we'll be here if you need us.

SENATOR CRAVEN: All right, very good. Our old friend, Jerry Rioux.

JERRY RIOUX: It's good to be here again. I'd like to talk about a number of issues that are the central concerns in the paper, and put some additional perspectives on it. I represent the Rural Community Assistance Corporation and, as the consultant, a conversion consultant, we take a much different view of this market than most of the consultants that you've met with or who have spoken here today. We focus on the low end.

SENATOR CRAVEN: Yes, you have a different constituency.

JERRY RIOUX: A much different constituency and RCAC works in 14 western states to help people to gain better control of their living environment and to improve their living environment. And, as an example of the kind of project that we'd like to work with, we helped the residents of a mobilehome park in Soledad buy their park almost 10 years ago, and they've operated it successfully as a cooperative. That group of residents are all farmworkers - 100 percent farmworkers. They bought the park - if they hadn't bought the park, they'd be living in their cars. It's a situation where they had very low-incomes, and they've been able to manage it successfully as tenant management - they operate it themselves - and we've worked with groups that have bought farm labor projects, apartment buildings... people who have put in their own water systems, so that they can improve their living environment and they're all on low-income. In the case of the parks that we've worked with, the minimum percentage of low-income residents we've worked with is 60 and that goes up to 100 percent. In Marguerite's park, you're probably aware, the situation there, in terms of the people who are at the low end of the scale, 100 percent of the people in Marguerite's park are low-income. The average income is about $8,000 a year, and, if they don't have an opportunity to protect their homes, they really have nowhere to go. And, (tape inaudible) throughout the state, there are lots of people in a similar situation.

I'd like to focus on two areas. One is the current funding and the need for the MPROP program and ways to supplement it, and the other is to look at the overall market for mobilehome park financing, because I think we need to look at both of them. The consultants, who were concerned about the condominiums in the middle to upper range parks, need to have a better market, and, to the extent that they have a better financial market, the low end parks will be able to benefit more from the limited public subsidies. For the low end, for the MPROP program, a lot of parks don't come to the program. They don't come to it because they don't know when the application window will be open, and, when that window opens, it kind of - we're open, and, then, 2 months later, they're closed, and a year later, they may be open again. So, there's no continuity in the program. If we work with a group or, if someone else works with a group, there's not much knowledge in terms of when that money will be available again. It's a limited amount of money and it's not available on a regular basis. And, if it had more money and could be available on a more regular basis, there would be much more demand than we see today. In terms of that program, there are a number of ways that we could fund or increase the funding to it. The first, of course, is an increase in the registration fee that mobilehome owners pay. As people have pointed out, only those who are on the HCD rolls pay that tax. People who are on the property tax roll, the ones who own the newer and, generally, more valuable homes, do not pay that tax. The next one that's been discussed is a transfer fee. With a transfer fee, everyone would pay, so that is a much better approach than increasing the registration fee, but I think we could look at both of those. On the transfer fee or sales tax from mobilehomes, I think it's very important that you set a rate rather than a set fee. Because a person who sells their home for $5,000 is going to be in a much worse position to pay that fee than someone who sells it for $200,000. I would prefer to see a fee that's a fixed fee regardless of price. No cap on it. And, at that, it could be a very nominal fee. If it were a half of one percent or even a quarter of one percent, it could generate a fair amount of money, whereas the alternative would be to cap it at, for example, $125 which has been mentioned. That would be an onerous tax on someone who owns a home that sells for $5 or $10 or $15,000, but for someone who sells a $200,000 home, it's not very much. The other thing that needs to be looked at is the registration fee on the parks themselves. There's a lot of cost involved in collecting a fee from a million people, half a million mobilehomes, whereas there's 5,000 parks. And, if the parks were assessed, and we allowed the park owners to collect the fee, there would probably be less administrative costs. And, if the park owners collected the fee to pass on to the state, the homes that are on the property tax would be assessed as well as those that are on the vehicle license tax. That's something to look at. I see these as shorter term ways to get money for the program.

There's some longer term sources that we need to look at, too. One is the bond financing that you're looking at in your bill, and I'm real glad to see that the article from RCAC's newsletter was reprinted for the hearing background on the bond financing. I think it's real important to get to. I think it's also important to get mobilehomes recognized in the Roberti bills and to make sure that mobilehome owners and mobilehome park owners get the opportunity to benefit from the tax subsidy that's being provided there. I think this could be hard, and part of it's going to be a matter of selling to the supporters of those bills that mobilehome owners are largely low-income and that the monies will go to benefit low-income housing, and that that's a difference in their perspective of mobilehome parks.

Something that I've talked casually with John Tennyson about but something that I'd like to propose formally here is tax increments for mobilehome parks. We have a situation where there's almost an incentive for a city to let a mobilehome park close and be developed for some other use. And, just as we have tax increments in redevelopment areas to support redevelopment, I'd like to see the Legislature look at a tax increment program for mobilehome parks. The reason that we're at this hearing is because we want to...

JOHN TENNYSON: Jerry, could you explain how that works for the benefit of the audience?

JERRY RIOUX: I'll do that in a minute. Uh... the idea is... the reason that we're here is to support the preservation of affordable housing in the mobilehome park field. What tax increments are, it's a method whereby you set the taxes on a property at a given time, and, when the property is redeveloped to another use, the increase in property taxes is dedicated to a specific use. So, in a redevelopment area today, we might have a property that has a small value on it, and it generates, let's say, $2,000 a year in property taxes for the city, the county, the school district, etc. If it's in a redevelopment area, subject to tax increment financing, when that property is redeveloped - let's say they put a hotel there, and that hotel, instead of generating $2,000 a year in taxes, generates $20,000 a year in taxes - the increment is $18,000 a year in taxes. That $18,000 a year goes to support the efforts and the activities of the redevelopment agency to improve the community, to put in streets, do a whole variety of things, including subsidize affordable housing within that community. Well, what I would like to see happen is a program whereby, if any mobilehome park closes and is redeveloped to a use that creates more property taxes, that this property tax go into the Mobilehome Park Resident Ownership Program to supplement the funding so that more people can buy their parks and protect themselves from displacement when their parks close. It may be good, at the same time, to look at expanding the program to build new parks as well. But that is a potential for some money that, in the long run, might be very valuable. At the same time, I think it would be good to look at using the tax increments or applying the tax increments to sales tax as well. If a mobilehome park is converted to a hotel, an office park, retail stores, they generate sales tax as well, and, if the sales taxes can be captured to support the preservation of mobilehome parks, that would also be very helpful. That's kind of a radical idea but I think we need to look at novel ways to solve the problem.

The other area that I wanted to go into is, basically, I would call it mainstreaming mobilehome parks in the financing market. Mobilehome parks are like the ugly step child of housing. When we look at the Roberti bill and how many of the advocates look at it, if we look at the finance industry, the banks, the S&L's, mobilehome parks and mobilehomes don't fit. They're not housing under a lot of laws. California's been very progressive in stating that mobilehome parks are a residential land use, that mobilehomes are housing - they're manufactured housing, not mobilehomes now. But, when we look at the industry as a whole and at a lot of the federal laws, mobilehome parks are being discriminated against and mobilehome owners are discriminated against left and right in the financial market. One of the reasons why financing is readily available for homes in the United States is because there's a secondary mortgage market. When a bank makes the loan on a house, they can sell that loan because it's a known quantity. Mobilehome loans are not saleable on most of the secondary market, and, if we could get the federal government to change some of the laws for the Federal National Mortgage Association, Fanny Mae or Freddy Mac, then we could increase the amount of financing that's available for both cooperative, nonprofit, and also the condominium parks. I'm surprised that Amos didn't bring that up when he talked today, but, when you have a situation where a mobilehome owner owns their home and they own the land under it (inaudible)...a condominium, that is as close to a single family home as you can get. But, when a lender makes that loan, they have to charge a premium to the homeowner because they can't sell that loan on the secondary market. Also, when we talked with Fanny Mae about multi-family financing... (gap between tapes)... so there's a big need to change the way that our whole nation looks at mobilehome park financing. California represents between 10 and 15 percent of the financial market, the real estate finance market, and I think that we should have some say in how the national laws affect our market.

There are other areas in what I call mainstreaming that we need to look at. One is that FHA has a program for mobilehome park insurance called 207-M that will finance loans on mobilehome parks - that could be resident owned as well as investor loans - but, unfortunately, the maximum loan under their program is $9,000 per space. They haven't used that program for a long time and it hasn't made any (inaudible)... in California for even longer. When I worked with California HCD, we did a demonstration program with HUD and with Fanny Mae and Freddy Mac, where we created a new type of loan for first-time home buyers, and I'd like to suggest that, as a result of this hearing, that the Senate direct HCD or, perhaps, CHFA to do a demonstration program, to work out an arrangement with HUD through their special approval process, under their demonstration program, to finance or to provide loan guarantees for mobilehome park financing, to show that these kinds of loans work. If we can get HUD to provide certain waivers of their normal program, we have a guarantee program out there. It's just a matter of getting them to use it and to change the rules so that they're more reasonable. And, I think that's a very valuable role for the government.

I'm a strong believer that the government... that the role of the government is, primarily, to make the system work. We have a market that's trying to develop, and I think it's very important for the government to show the private sector that this market is viable, to help take some of the risks at the beginning, but not to subsidize it forever. There are people who will need subsidies forever, but the market, as a whole, is very viable as most of the people have said. We need to look at the bonding laws and the laws for the low-income housing tax credit. There are a variety of tax laws at the federal level that don't treat mobilehomes or mobilehome parks as housing. Under the low-income housing tax credit, developers, nonprofit and for-profit developers of apartment buildings get a special tax credit that's worth about 70 percent of the cost of developing the housing. Mobilehome parks aren't eligible for that. Mobilehome parks aren't eligible for the normal housing bond financing and mobilehome owners, who own their parks through cooperatives, don't get the same homeowners' deductions as the owners in apartment cooperatives under the federal law. So there are a whole number of areas where I think California can help take the lead in shaping federal law so that it's more responsive to the market so that our market can work better. But, without that, I think we'll see more and more people coming to this state and saying that the state needs to subsidize it or that the state needs to guarantee it. I know I've taken a long time and I appreciate this opportunity, but there are a lot of mechanisms in place and, if we can get them to look at this market and make some changes so it'll work, I think we can solve a lot of the problems that have been addressed today. Thank you.

SENATOR CRAVEN: Very good. Thank you very much, Jerry. Senator Dills?

SENATOR DILLS: A quick question. To what extent has your organization or you been in touch with Senator Roberti with reference to the inclusion in his issue...

JERRY RIOUX: I've talked with some of his staff, and it's a political issue. It really is a political issue, that a lot of the housing advocates don't view mobilehomes as real housing, and they are concerned that the mobilehome advocates have not taken up the charge to support low-income housing or affordable housing in general, so there's been a split. I think the rent control issue has also been part of this split.

SENATOR CRAVEN: It has, very definitely. Okay, very good.

MARGUERITE FERRANTE: Bill? Bill, I want to mention one thing. You're in an area close to De Anza. De Anza sells stock in all of their mobilehome parks, and they are... De Anza stock is like third in the country of better investments. You should call them and check on that.

SENATOR CRAVEN: Now I know what to do with my spare money... (laughter)... Well, thank you both. We've had a certain consistency here today that I should really bring to your attention, and that is that none of us have adhered to the seven minute rule... (laughter)... but, I tell you, it's a very involved situation. It's also extremely important and equally interesting. Well, Marie, it looks like you get the baton for the last quarter mile, so, running anchor for us today, is Marie Malone, who today represents The Associates Group for Affordable Housing, and she lists her address now as Escondido, business-wise, I guess. You're still in Vista though, aren't you?

MARIE MALONE: Oh, very definitely, still in Vista... in a resident-owned park. I'm going to cut mine very, very brief, because of the hour and that. What I would like to say is just make one very important point, I believe. We continually talk about mobilehome and, perhaps, we are our own worst enemy. I think it's time that we begin to look at affordable housing, and, in the state of California, affordable housing is the mobilehome. And I think if we begin to approach this from the affordable housing angle, we have an obligation. The State says we have an obligation, the cities have an obligation, the county has an obligation. We put a different hat on it - there's a different look on it, and, when we begin to speak about affordable housing, I think that, if we look at one thing - the program that you started years ago, which has been most successful now, and it's an unusual housing program, this purchase of resident-owned parks. It's one of the few in the state of California that's a win-win situation for every person that is involved in it. First, it stabilizes the housing costs of every one of the homeowners who are able to buy into that park - the low-income homes, backed by the, used to be MPAP, now MPROP programs. They're assured of continued home ownership which, in a rental park, they are not today as you know. The taxpayers' money that you have put into this - and it is taxpayers even though the majority of it comes from the homeowners - is returned to the government with interest. That seldom happens in low-income housing. And, most of all, you leave a park owner very happy, because he has received a good return on his investment in the park, when he sells to the residents - a better return than he can realize today selling to the investors. And I know of no other program in the state of California that can make that claim that everybody involved including the state comes out a winner, and I think it's very important.

But, what you asked us to come here today to talk about was what we think should go into this program to help MPROP. I don't think that we should settle on just one element. I think it has to be spread across the board. As you know, I am in support of the bonding issue, but the bonding issue is not going to solve the immediate problem. It is a longer range - by the time the bond goes through the process, is sold, and the rules and regulations are set up and the machinery is put to work, it'll be a year and a half or two years down the line. I think that that should continue, but I think what we have here is now something again that we're looking to the mobilehome owner.

I know that over in Assembly Housing, they are looking toward raising the fees on the mobilehomes. I think Jerry Rioux came up with something very good when he said it is possible to collect that fee from the park itself. In doing so, you will spread it across all homes instead of just those that were manufactured before 1980, and I think that's a very significant thing because the population in our homes are becoming the new generation of retirees as the older ones are passing on to that great mobilehome in the sky. You're getting a different breed, who are taking some of the old homes out of the park and replacing them with newer homes, and these are the people who want to buy these parks - want to make them resident-owned parks. But those particular homes, because they are on real property taxation, would never be taxed under this. I think it should be a fee that goes across the board. The amount of the fee is negotiable. To satisfy maybe the exemption for the lower-income is a good idea, but the amount of the fee, I leave that to the Legislature to work out in compromise.

I think the transfer fee is very important and should be put in place for this reason - it has the similar fee - it already exists in site-built housing. When a developer goes out and develops a new tract of homes, he has to put low-income housing homes in there - a certain percentage of them for 10, 15 years, whatever it is - or he must pay the city a set-aside for low-income housing. Well, obviously, that cost is going to be passed on to the new homeowner. The developer is not going to be the one that's the fall guy in this area. The same should be true when we sell new manufactured houses. Why shouldn't we have the same fee on there for set-aside for the low-income houses and the same thing on resales within parks. And that should be a source, a continuing source of good funding for this program. It isn't going to break anybody's back, and I agree with them that it should be a percentage price - percentage of the selling price - so that we have equality across the board on those who can afford to pay will be paying.

Outside of that, I know of nothing else except, if we're going to talk about affordable housing in California, in Sacramento, then I think that our staffs in government here must begin to think affordable housing. Our Legislature is making the effort to bring about this insistence, and I think that we have to come together and communicate - and that includes all of our professionals out there - communicate with us out there, and let us help government come together and find a way - not to put the roadblocks in that it can't be done because it's never been done. Stop thinking of mobilehomes as mobilehomes and start thinking of them as low-income housing - the goal that we are all trying to achieve - and, if we can do that, and, if we can educate our staffs, I think that the Legislature will give us - I know we have your support - that you will give us the necessary tools to accomplish the end that we're trying to achieve out there. And thank you very much for your hearing today.

SENATOR CRAVEN: Thank you, Marie. As always, it's a pleasure to have you with us.

SENATOR DILLS: ... (inaudible) ...affordable housing - it has a good ring to it.

SENATOR CRAVEN: That's right, Ralph. Well, we've come to the end of the speaker's agenda, and I guess I should ask, is there anyone who wasn't on the agenda who wants to say anything that we haven't touched on. I don't really know what it would be. I think we've covered most of the bases. As always, we want to thank you very much for being with us. It means a lot to us to have your presence here, because, as hard as we may try, we don't fully grasp the significance of so much of what you live with every day in the mobilehome field, and we are very, very dependent upon you to tell us, and we depend a great deal upon your expertise.

None of us here purport to be experts in this field - I'll say John, he's an expert - but the rest of us are not. But we try our best, with your guidance and with John's, to come up with the kind of answers that you hope that we do achieve. I don't know how much you have really been involved with the politics of what we do here, but, hopefully, today you'll get an idea of some of the things that we face. When it's reported in the newspapers, it's seems to be rather perfunctory that they did this or didn't do this, and it doesn't really tell you the full story. The full story goes from you all the way up here, and that's the full story and that's the one that we want to keep those lines of communication open on. You've helped us a great deal. I want to thank our new member, Senator Ayala, who has never had a Select Committee like this in his life... (laughter)... and my dear friend, Senator Ralph Dills, who's advice around here in so many ways has been invaluable to all of us in the Senate. So, to all of you, to my colleagues, and to John, thank you very much. We stand adjourned. Have a safe trip home.

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S U M M A R Y & C O N C L U S I O N

OCTOBER 2, 1991

SUMMARY & CONCLUSION

The testimony at the hearing brought forth considerable information concerning needs and funding for the conversion of mobilehome parks to resident ownership.

NEED

There appears to be some dispute with regard to the need for additional funding for park conversions. The implication from testimony of representatives of the Department of Housing is that there is no need for more money. During MPROP application periods, there have been few, if any, instances where the number of proposals for park conversions have exceeded the amount of available MPROP dollars for those proposals, according to HCD officials.

However, some conversion consultants have disputed the HCD position, claiming that a number of projects in the pipeline have been discouraged by an irregular application process and the knowledge that competition for the small amount of MPROP dollars will be too great. One consultant contends there is no "continuity" on when application periods will be open, and when money will be available again, eventhough MPROP regularly receives at least $2 1/2 million in license fee surcharge funds each year. With the "chilling effect" of the process, critics contend, many resident organizations don't even bother to apply.

One witness testified that the MPROP program was not properly managing and leveraging the funding available - doling out too much to too few parks. The gist of this testimony was that, before more funding is considered for MPROP, the Legislature should get a better handle on the use of existing program monies, such as putting a cap of $20,000 on start-up loans, requiring a feasibility study and HCD inspection for each park, and making the use of local government funding for a park conversion project a prerequisite to the use of state funding.

Another consultant indicated that several park conversions are presently ripe for funding, and that urgency legislation is needed to provide the additional funding for these parks in early 1992. Much of the testimony on need is apparently based on the presumption that rents will continue to increase in rental parks, perhaps dramatically, in future years, leaving residents the choice of either trying to buy the park to stabilize future costs or waiting until they are economically evicted, with the prospect, under the later scenario, that much of the remaining stock of low-income mobilehome housing would be irretrievably lost.

FUNDING

FEES: The most straight-forward way to raise funds to support the Mobilehome Park Resident Ownership Program (MPROP) is, of course, to raise fees on mobilehome owners to support a program for which they potentially benefit. However, fee increases will also generate the most opposition of any of the proposals discussed.

In this regard, AB-732 simply raises the existing $5 surcharge per unit on those homes paying license fees to $25 per unit. But as the testimony indicates, this may be politically difficult for the Legislature to pass, with the major mobilehome owner organization, GSMOL, and many mobilehome owners opposed to such a fee increase.

From the standpoint of tax equity, an even better approach would be to abandon the VLF surcharge and impose a fee which spreads the cost of the program among all mobilehome owners living in parks, not just those who happen to live in older homes subject to the VLF - in other words a fee on homes subject to property taxes as well as the VLF. And, for ease of administration, as one witness suggested, this could take the form of an increased fee imposed on each mobilehome park space by HCD - a fee which could simply be added to the $6 space charge, already collected annually by the Department on park owners, and passed on to residents in the park rent structure. However, park owners will probably oppose the idea of being the "fall-guys" in imposing and collecting the fee, and, as such, the proposal may also be hard to legislatively enact.

The third option discussed was a real estate transfer fee, collected by HCD as a condition of the title transfer of a mobilehome. The advantage here, of course, is that homeowners would not have to pay an annual fee, but rather a one-time fee, when cash is available through the sale of the home. The merits of using a percentage of the sale price approach, like 1/2 of 1 percent, rather than a flat fee, are obvious; the newer, more expensive homes would pay more. Nevertheless, the transfer fee approach will also not be popular with some mobilehome owners, mobilehome dealers and real estate brokers, but, because it is a fee on sale only, and not a fee which hits every homeowner at once, may be more feasible to enact than the other fee proposals.

BONDS: Regrettably, little additional light was shed on the issue of bonds for financing park conversions, other than bonds are working at the local level to provide such support. Bonding appears to be the easiest route in terms of legislative enactment. There was no indicated opposition to the use of general obligation or revenue bonds, and most witnesses stated their support for SB-501 or a similar bond measure, although they agreed such a measure would only provide funding for the lower income parks organized as non-profit corporations or cooperatives. One mobilehome representative suggested amendments to SB-501 to change a limitation to allow a corporation or intermediary, which facilitates park conversions, the opportunity to utilize bond funding for more than one park. There was not much substantive discussion on how the revenue bonds would work, or whether HCD would be willing to issue them, although one witness discussed the need for the use of the surtax license fee monies as security for the bonds, and another hinted that the bill could be amended to provide up to $50 million, not $25 million, in such bonds.

There was also general agreement among most of those testifying that SB-593 should be amended to carve out some general obligation bond housing monies for park conversions, though sponsors of the bill were not present at the hearing, and one witness pointed out that low-income housing supporters of SB-593, skeptical of mobilehome organizations, may well oppose such attempts.

LIENHOLDER RIGHTS: Another issue which was raised concerns the problem of a lender's security interest in a mobilehome being jeopardized in a resident-owned park, making it more difficult for buyers to obtain mobilehome loans. Upon foreclosure in a rental park, under current law, the lienholder has the right to resell the mobilehome in place as long as obligations to the park, such as rents and utilities, are fulfilled. There is no such protection on a space owned by the resident, according to committee witnesses, where the lienholder has no specific right to resell the mobilehome in place. The solution proposed was to give the lienholder the right to deal directly with the resident park owner's association or, otherwise, give mobilehome lienholders a security interest in the space. To date, the Committee has received no evidence from lenders that foreclosure on mobilehomes in resident-owned parks is a pervasive problem. On the contrary, it would appear that a mobilehome owner or an owner's heirs would be more likely to default on a home in a rental park, where rents were increasing, than in a resident-owned park, where the home's value is usually increased as the result of resident park ownership. The issue does, however, warrant further review.

CAPITAL GAINS: One witness proposed that homeowners who sell their conventional homes to buy mobilehomes in parks be permitted to elect to "invest" the "profits" from the sale of their home in the MPROP program interest free for a designated period of time - say 10 years - instead of paying state income taxes on the profit. The problem here is that the bulk of income tax liability on the sale of a home is federal, not state. Hence, any tax savings to homeowners would be minimal and would be offset by the fact that "investors" may want the use of their money during retirement or may prefer to invest any "profit" that is taxable in tax exempt bonds or other investments which bring in interest income during that period. Additionally, the law already recognizes a one-time exemption on the profit from the sale of a home. Moreover, at this time, with a potential state budget deficit hovering around $7 billion, any "capital gains" measure which would diminish rather than improve state revenues, however small, will be a likely candidate for a Governor's veto.

TAX INCREMENT FINANCING: Another witness suggested using tax increment financing from the conversion of parks to other land uses. Like redevelopment agency financing, when a mobilehome park is converted to another use, such as a shopping center, the difference in the increased property tax value in the new use over the old would be directed to financing park conversions. He also suggested that sales tax revenues from shopping centers or other uses which replace the park be captured for this purpose as well. These are ideas worthy of further study, but, given the fact that Department of Housing figures indicate that few parks have been closed in recent years, the question arises as to whether sufficient additional funding from this source could be generated to support the MPROP program. Certainly, the option may be viable at the local level, although it could simply serve to discourage pro-development local governments from approving the conversion of parks to other land uses in the first place. Such measures would, no doubt, incur potential opposition from park owners and local governments.

LOAN GUARANTEES: Several ideas were proposed to have the state establish an FHA-like mortgage insurance program or provide loan guarantees for mobilehome park financing. One specific proposal was to have a 5-year guarantee program for 30 percent of the purchase price of the park and, as part of such a program, require upgrading of the infrastructure, as well as professional management, of the park during that period. Another suggestion was for a joint state-federal demonstration program, providing loan guarantees for mobilehome park conversion financing, to show that these kinds of loans are viable. The major problem with loan guarantees is the issue of security. A fee or insurance premium on all park conversion loans could be imposed - but this would add to the cost of the existing loans. Part of the VLF or other fee money discussed above could be diverted for this purpose, although this would detract from the total amount of direct funding available from the MPROP program. Making such guarantees a general obligation of the state would in normal times seem the easiest route but, in a time of budget deficits and the recent downgrading of the state's credit rating, could prove problematic.

FEDERAL LAW: One consultant made a number of suggestions for changes in federal law, such as changing federal restrictions on mobilehome park financing through Freddy Mac and Fanny Mae programs, changes in the federal low-income tax credit for mobilehome parks, homeowner federal tax deductions for park co-op's, not presently allowable, and the like. At the state level, these changes in federal law would presumably have to be treated through official state pressure on federal agencies to change administrative regulations, or on Congress to change the law. Legislative resolutions could be easily passed to evidence California's intent to support such federal changes but have no force and effect in law and may be summarily ignored by Congress.

There was no lack of suggestions for funding or providing impetus for funding park conversions. In some cases, there was, as well, no consensus so necessary for enactment in the legislative world. More ideas were brought forward at the hearing than can be realistically considered for legislation in 1992. Most of these proposals have merit but also some practical drawbacks. The scope of this report is limited to the viability of enacting these ideas into law. There are no easy answers.

With this in mind, immediate emphasis in the 1992 session should be directed to a bond program to raise funds for park conversions, as well as consideration of a mortgage guarantee demonstration program, and legislative resolutions and pressure upon the federal government and Congress to change federal laws and regulations to make federal loan programs more "mobilehome friendly."

Of the fee increase proposals, the transfer fee appears the most likely candidate in terms of enactment, but in the volatile 1992 election year, no fee increase measure may be politically realistic. Revision of the fee structure for mobilehomes which supports the MPROP program should merit attention, if not in 1992, in the near future. Amending the redevelopment law to provide more specifically for mobilehome park conversions as part of the required low-cost housing set-aside could also be considered in the long-range along with tax increment financing to raise more funding for such parks. A mortgage guarantee demonstration program, if successful, could result in a more permanent approach, patterned after CHFA's CHIF program, within the next few years.

In this regard, the Committee will recommend to the Senate leadership that an ad hoc committee, consisting of representatives from a wide spectrum of mobilehome interests, be created to meet periodically during 1992 to further consider and study resident park conversion and conversion funding issues and make recommendations to the Select Committee on those priority ideas for which a consensus can be achieved for legislation in 1993 and beyond.

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A P P E N D I X

(Selected Materials & Information)

OCTOBER 2, 1991

Tax Exempt Nonprofit Bonds

By: David J. Yniguez, Vice President for TACS
National Council of La Raza

Bond financing probably doesn't leap to mind as a source of capital for your nonprofit agency. But it is indeed possible to issue your own bonds. David J. Yniguez of National Council of La Raza describes the process and outlines the costs of a bond sale in this article. While there are some very specific circumstances that would warrant your undertaking such a sale, it is a very real source of project financing.

Tax-exempt bonds are a relatively new financing mechanism for nonprofit organizations. The funds can be used for housing projects that are not eligible for traditional housing bonds. The interest earned on obligations issued by a not-for-profit corporation can be received tax-free.

In the past, tax exempt bonds were used primarily by governmental entities in financing construction of "public facilities" such as schools, roads, etc., and for qualified private activities, such as hospitals. Private activity bonds are issued by the state of a local government for the benefit of a non-governmental entity. For tax-exempt bonds issued for private activities, such as a housing project, a government can issue:

- exempt facility bonds
- 501(c)(3) bonds
- qualified redevelopment bonds

Although the three types of bonds have many similarities in their requirements, 501(c)(3) bonds are more attractive for financing smaller housing projects.

501(c)(3) Bonds

All 501(c)(3) bonds are tax-exempt bonds which can be issued by a 501(c)(3) organization through a governmental entity. The bonds may be used by the 501(c)(3) organization to finance acquisition, construction and rehabilitation of property for related trade or business purposes. Under the Tax Reform Act of 1986, this type of tax-exempt bond financing has several new advantages:

- Interest earned on 501(c)(3) bonds is exempt from the alternative minimum tax, making these bonds more attractive to investors.
- All 501(c)(3) bonds are exempt from the now unified volume cap placed on each state of issuance of private activity bonds. Each 501(c)(3) organization has its own, independent $150,000,000 limit.
- Qualifications/restrictions for 501(c)(3) bonds are few and flexible:
  - Ninety-five percent of net bond proceeds must be used to acquire property which must be used in related trade or business and property must be owned by a 501(c)(3) organization or governmental entity.
  - Only two percent of bond proceeds may be used to pay issuance costs.
  - Bond proceeds may be used for refinancing
  - Bonds can be issued for a maximum 30-year maturity.
  - Bond maturity must not exceed 120 percent of reasonably expected economic life of bond financed property.
  - Bonds are eligible for advance refunding.
  - Issuer must file an information return with the IRS.
  - Existing rental housing projects acquired by the 501(c)(3) groups after October 21, 1988, are required to satisfy low-income targeting requirements for tax-exempt private activity bond-financed projects.

A 501(c)(3) organization *is* qualified to be the beneficiary of tax-exempt bonds. The obvious benefit to a 501(c)(3) is that it is possible to dramatically reduce the cost of debt service through the issuance of such bonds, depending upon the status of the bond market at the time of issuance. 501(c)(3) bonds would normally have an interest rate 2 percent less than that of conventional financing.

The downside is that it usually costs more up front to issue bonds than it does to obtain conventional financing and takes more time to put a deal together. With the size of bond issue which a 501(c)(3) would typically contemplate, it is important to keep those issuance costs as low as possible. Issuance costs normally average 4-5 percent on this type of sales. With the 2 percent limit on use of bond proceeds for issuance costs, a 501(c)(3) would have to cover the additional amount from other funding sources or strike up a deal with some folks. (*Note:* a proposed revision to the Section 501(c)(3) law would eliminate the 2 percent limit on cost of issuance.)

Carefully select the governmental agency to issue the bonds. The requirements of and working relationship with the issuing agency can make or break the deal.

The goal of a 501(c)(3) is to set up a prototype project for issuing 501(c)(3) bonds for housing which will streamline the process and minimize issuance costs. To issue 501(c)(3) bonds, a 501(c)(3) organization will need:

- a governmental agency to issue the bonds
- a financial team
- a project feasibility study
- a determination of the type of sale
- a commitment for bond purchase (if using private placement)

PUTTING A SALE TOGETHER

Issuing Agency

Carefully select the governmental agency to issue the bonds. The requirements of and working relationship with the issuing agency can make or break the deal. The process of issuing bonds can be a long and expensive one, especially if the issuing agency imposes a high degree of bureaucratic red tape and fees on the 501(c)(3).

In talking with potential government agencies, key questions to answer are:

- Are they interested in working with the 501(c)(3)?
- Are the goals of the organizations compatible? Do they foresee any political problems/benefits to the sale?
- What requirements will they have in terms of financial team members? Documentation? What kind of assistance can they give you?
- What fee will they charge to issue the bonds? What additional costs will they charge to the bond sale? What kind of annual maintenance fee will they charge?
- How quickly will they respond to putting a sale together? What will their schedule be?
- How truly interested are they in doing the deal?

Talk to the agencies and choose the one which is the most cost effective, supportive, and excited about working with you.

A finance team for a bond sale is normally made up of bond counsel for the issuing agency, borrower's counsel for the nonprofit agency, financial advisor for either or both agencies and an underwriter. Given the size and type of the sale and the need to keep issuance costs as low as possible, the two agencies need to set a budget for the costs and fees for the finance team and negotiate contracts which limit compensation to no more than those budget amounts. This provides incentive for the finance team and the agencies to keep issuance costs low. An additional incentive for team members is the likelihood of future bond sales if this one is financially successful.

The duties and responsibilities of each member of the financial team is outlined below (Schedule I lays out a proposed budget based upon the type of sale structure used):

- Bond counsel for issuing government agency to finalize bond documents and issue the bond opinion.
- Borrower's counsel for 501(c)(3) to issue the necessary tax and legal opinions and to prepare the documentation of the sale.
- Financial advisor who will review the terms and the structure of the deal and advise on its acceptability.
- Underwriter or private placement institution to broker or purchase the bonds depending upon the type of sale finally selected.

How the team is put together will depend upon your negotiations and working relationship with the issuing agency and the type of bond sale selected. Usually, one of the first members selected would be your legal counsel. It is a good idea to select a firm with experience in the bond market and with particular experience in housing.

Generally, the issuing agency will have a financial advisor on contract. In selecting its members of the financial team, the agencies will need to bear in mind the need to select firms who are very inter-

Schedule 1

Estimated Cost of Issue
501(c)(3) Bonds
Based on $2.4 Million Sales

Description	Private Placement	Unrated No LOC*	[illegible]
Financial Team			
Bond Counsel	$15,000	$15,000	$15,000
Financial Advisor	0	0	0
Trustee	0	0	0
Underwriter	0	2.0%	1.5%
Other Issuance Expenses			
Rating Agency (1)	$0	$0	$3,000
Bond Engraving	0	$2,500	$2,500
Official Statements	0	$7,000	$7,000
Corporation Travel and Out-of-Pocket Expenses	$500	$1,000	$1,000
Consultants	$0	$0	$0
Letter of Credit Fee	$0	$0	$14,000
Bank Placement Fee	1.5%	0%	0%
Government Agency Fee	1.0%	1.0%	1.0%
Cost of Issuance, $2.4M	**$75,500**	**$49,500**	**$71,500**
Plus Underwriter's Discount	0	$48,000	$36,000
Total Cost of Issuance	**$75,500**	**$97,500**	**$107,500**
Percentage of Total Issue	3.15%	4.06%	4.48%
Bond Proceeds Available for Issuance Costs	$48,000	$48,000	$48,000
501(c)(3) Funds Needed for Issuance Costs	**$27,500**	**$49,500**	**$59,500**

*LOC: Letter of Credit — a letter of credit is one of many possible guarantees or credit enhancements for bond issues.

ASSUMPTIONS:

Government agency fee includes all of their costs of bond counsel, financial advisor, staff, etc.

State Housing Finance Agencies Issue 501(c)(3) Bonds

Three state housing finance agencies in the West have issued 501(c)(3) bonds. Both Colorado and Washington are very active with this type of financing. Oregon has also issued them and is likely to be more active in the future. For more information on the programs in these states, contact the agencies directly:

Susan Sheeran
Colorado Housing and
Finance Authority
1981 Blake Street
Denver, CO 80202-1272
303/297-7331
800/877-CHFA (in Colorado only)

Tia Peycheff
Washington State Housing
Finance Commission
1111 Third Avenue #2240
Seattle, WA 98101-3204
206/464-7139

Craig Tillotson
Oregon Housing Agency
1600 State Street
Salem, OR 97310
503/378-5959

For additional information on state housing finance agencies, you can contact their national association:

David DeSantis
National Council of State
Housing Agencies (NCSHA)
444 North Capitol Street, NW, Suite 412
Washington, DC 20001
202/624-7710

Based on the NCSHA's annual survey of its members, a total of six state housing finance agencies issued 501(c)(3) bonds in 1990. In addition to the three western agencies listed above, New York, Rhode Island and West Virginia issued 501(c)(3) bonds. In 1989 only four state HFAs issued 501(c)(3) bonds: Colorado, New York, South Carolina and Wisconsin.
— *Gerald L. Rioux*

ested in putting this type of a deal together. The margins on a smaller sale are minimal. Using an underwriter or private placement institution within the local market makes the job of educating people about the project easier and the commissions more realistic.

Project Feasibility Study

Bond investors will want a market analysis and a financial feasibility study for the project. Both of these should be prepared early on in the project planning. Sometimes bond investors will require more formal studies, particularly if the project is complex or expensive. A preliminary financial analysis would include:

- identification of tenants
- projected income
- cost and expenses
- debt service
- projected financial performance over a 5-year period

Structure of Bond Issue

Three different structures for the bond issue have been explored within the financial community: private placement; negotiated sale without a rating or letter of credit; and competitive sale with a rating and letter of credit.

Private Placement. Under a private placement, the 501(c)(3) first finds a lender that is willing to purchase the bonds and negotiates the terms and conditions of the financing.

The issuing agency then issues the bonds, sells them to the private lender, and loans the bond proceeds to the 501(c)(3). The 501(c)(3) gives a trust deed to the property to the issuing agency as collateral for the bonds, which in turn is given to the private lender as collateral.

A private placement is generally less complex to put together, requires less documentation, and issuance costs are approximately two-thirds of what they are for a competitive sale. Interest rates on a private placement are generally higher than those under a competitive sale but still less than conventional financing.

The purchaser's commitment for a private placement is typically for a 10-year period, although the loan may be amortized over a 30-year period. New financing would again be needed at the end of the 10-year period, with additional issuance or commitment fees at that time.

Public negotiated sale without a rating or letter of credit. In the event of a public negotiated sale, a preselected underwriter brokers the bonds at a negotiated rate for the issuing agency. The bonds are issued and bond proceeds are loaned to the 501(c)(3). The bonds would not be rated by Standard and Poor's or Moody's nor would they be backed up by a letter of credit or other form of guarantee or credit enhancement. Bond buyers would buy the bonds based on the strength of the project itself.

This type of sale is more complex, requires more documentation and the preparation of an official statement describing the bond offering and the project in detail. It also has higher issuance costs due to documentation requirements and sales commissions.

The bonds are issued for a 30-year period with a level debt service. Although the interest rate would be locked in for that 30-year period, the bonds could be called—repaid early— in the event interest rates drop significantly in the future.

Public negotiated sale with a rating and letter of credit. The same process applies for this type of public sale with some additional requirements. Prior to issuance of the bonds, the 501(c)(3) would need to obtain a letter of credit for the full amount of the bond issue or some other form of loan guarantee or credit enhancement. Bond holders would look to this letter of credit in the event of default on the bonds. After obtaining the letter of credit, the bonds would be reviewed and rated by either Standard and Poor's or Moody's. This type of a bond sale usually yields lower interest rates because of the credit enhancement behind the bonds. However, the annual fee for the letter of credit, at least one percent per annum, not only negates any interest rate savings, but in this instance makes both issuance costs and overall debt service costs higher. This arrangement may, however, be necessary for the bonds to be marketable.

Security for the bonds. In all cases, the bond buyers/investors will look to the project to stand on its own. They will examine the value of the property, the projected cash flows, the experience of the 501(c)(3), and what resources are available to back up the loan.

As noted above, they may require additional security or credit enhancements, such as a letter of credit or bond insurance. It is important to look closely at the difference between the cost of the credit enhancement and savings in interest rates to determine if it is in your best interest.

Mobile-Home Parks Receive 501(c)(3) Bond Financing

One of the greatest difficulties with developing mobile-home parks or converting them to resident ownership and control is the lack of financing and subsidies. Mobile-home parks are not considered housing under federal tax laws. Consequently, they are not eligible for housing bonds or low-income housing tax credits. Most state housing programs do not include them either. In addition, mobile-home parks have lost much of their access to conventional financing due to the new federal risk-based capital requirements. Federal banking regulators have placed mobile-home parks in the same high risk category as shopping centers and speculative commercial ventures.

In the future, 501(c)(3) bonds may become an important source of financing for mobile-home parks owned by nonprofit corporations and government agencies. To date, at least two resident-owned parks have used 501(c)(3) bond financing—one in California and another in Colorado—and a number of additional projects are in the pipeline. The two examples described below provide a sense of how 501(c)(3) bond financing can be used for mobile-home parks. They also illustrate the flexibility that is available with this type of financing—both for mobile-home parks and other forms of affordable housing.

El Rio

El Rio is an older park located in the city of Santa Cruz, California. El Rio has 93 homes and all are older single-wides. The residents of El Rio are primarily older adults and senior citizens, but there are some younger residents and children as well. All of the residents are low-income, under state and federal laws, and most are very-low income.

The residents of El Rio formed a limited equity housing cooperative (LEHC) to purchase and operate their park. They received tax-exempt status from both the state and federal governments. The residents paid $1500 each to purchase memberships in the cooperative; the resale value of these memberships increases at the rate of 3 percent per year.

The city of Santa Cruz issued $1.3 million in 501(c)(3) bonds to finance El Rio. The consultants for the park negotiated with a local lender to purchase the bonds and provide the financing for

(Continued on page 20)

the park. The residents save at least 2 percent on their interest rate. The bank earns a fairly high tax-free income and receives benefits under the Community Reinvestment Act.

The California Department of Housing and Community Development provided a $518,000 deferred loan under the Mobilehome Park Assistance Program to ensure that the park was affordable to the residents after the purchase. After the purchase, many of the residents paid less to live in the park than they did prior to the conversion.

We'll Have Equitable RElocation (WHERE)

WHERE is a park resident organization in Englewood, Colorado. WHERE was started when residents learned that their park was slated for development to a "higher and better use." The residents organized, first to protect themselves from displacement, and then to purchase the park from its owner.

Originally formed as a cooperative, WHERE converted to a nonprofit public benefit corporation because they were advised that the co-op would not be eligible for 501(c)(3) status. They also added representatives from the surrounding community to their board. These outside board members add credibility to the organization.

WHERE purchased its park using $700,000 in 501(c)(3) bond financing from the Colorado Housing and Finance Authority (CHFA). Under CHFA's 501(c)(3) bond program, nonprofit organizations may borrow up to 95 percent of the cost or value of their project for 30 years at a fixed interest rate. The loan must be secured as a first lien against the property and there must be a funded reserve account. CHFA only requires a 5 percent investment from a nonprofit borrower, though they typically have one or more subsidies that reduce the percentage of CHFA's loan.

WHERE also received local CDBG funds. The CDBG funds were used to improve portions of the park, rehabilitate some of the homes in the park and purchase replacements for the homes that were in the worst condition.

Unlike most resident-owned parks, WHERE actually owns a high percentage of the homes in the park as well as the land and improvements. Another unusual feature is that the residents do not formally own an interest in the mobile-home park. State laws provide adequate tenancy rights for the residents so that strict ownership is not required.

— *Gerald L. Rioux*

Summit Partners

October 10, 1991

Senator Bill Craven
State Capitol
Room 3070
Sacramento, CA. 95814

Re: Resident MobileHome Park Financing

Dear Senator Craven:

Thank you for letting me testify at your hearing October 2. We believe your work is important. Hopefully, the programs you propose will become reality. In addition to those programs, we believe government guarantees for lenders would open up private sector money. As I stated at the hearing, these would be declining or self-liquidating guarantees based over five years and only on a portion of the loan amount. This should have the same affect as the FHA/VA programs did after WWII which created a housing Boom! Only this time, it would be in resident owned parks. This would be of national significance. If you or John Tennyson wishes to discuss this issue, please contact me.

Again, thank you, and my compliments on your work.

Sincerely,

Michael Kiss

Michael Kiss
Partner

cc: John Tennyson
Marie Malone

MK:tl

1081 Camino del Rio South • Suite 225 • San Diego, CA 92108 • (619) 296-7232 • FAX (619) 296-7011

SPELMAN & CO.
1127 Wall Street
Post Office Box 2412
La Jolla, California 92038
(619) 459-3701

October 16, 1991

Mr. John Tennyson
Senate Select Committee
on Mobilehomes
1020 "N" Street
Room 520
Sacramento, CA 95814

Dear Mr. Tennyson,

I wish to thank you for the courtesy extended to me in permitting my recent testimony before the committee, and to take this opportunity to summarize certain points made at the meeting by myself and others.

Credit Worthiness, Marketability of Bonds Sold Under SB 501

Senator Craven raised the question of market acceptance of bonds sold under a blind pool arrangement.

My response to this concern was, and is, that investors (and rating agencies) will look to the revenues which provide the security for the repayment of these bonds, and will have relatively little interest in the asset being financed. In this case the pledged revenue to repayment of the bonds is the Mobilehome Park Resident Purchase Fund. To provide credit evaluation on the SB 501 program, rating agencies and investors will need to know 1) past performance of this fund; 2) lien priority (if funds are pledged to any other purpose bondholders would normally come first); 3) a calculation of coverage (i.e.; what is the amount of the pledge divided by the anticipated annual debt service) and 4) the economic forces which might cause changes to this fund in the future.

This information will be useful in receiving rating agency comment. Preliminary feedback from the rating agencies might be of interest to the committee. Credit worthiness of bonds issued under the program could also be improved through the implementation of some of the items considered in your report, such as FHA type insurance (further discussed below). If you feel this firm can assist in the preliminary review and analysis of such bonds, we would be willing to undertake these preliminary services for the long term benefit of this program.

Insurance Programs

Several witnesses referred to possible State or federal insurance programs as being a major key to financing of mobilehome park acquisitions. It is my belief that the importance of the development of such insurance vehicles cannot be overstated in order to enhance the marketability of mobilehome loans. Despite an excellent track record, the market has relatively little direct experience in the financing of manufactured housing.

State Insurance

State establishment of a program to issue bonds to be used for mobilehome park loans would greatly facilitate the financing of parks. Offering State insurance would also assist local governments in selling bonds for this purpose. Enabling local issuance of bonds for this purpose would also eliminate any concerns about lending the good name of the State of California to additional bonds.

I have also thought about some joint participation of local governments (i.e.; redevelopment agencies low and moderate income housing funds) to provide co-insurance similar to some FHA programs. If a local agency acted as co-insurer (i.e.; for for the top 5% of the loan) this would insulate the State, and perhaps, help the political marketability of the program at the State level.

FNMA Demonstration Project

I believe Jerry Rioux made a superb suggestion regarding an FHA/FNMA demonstration project. These Federal agencies are in the insurance business already, and have an important role to play. If the State can use its good offices to advance manufactured housing at the level of FHA, FNMA, GNMA or HUD, Californians will greatly benefit and affordable housing will be poised to make an enormous leap forward.

Affordable Housing Generally

I agree with Marie Malone in her comments on this subject. Mobilehomes and manufactured housing mean affordable housing for ordinary working and retired people. I believe that the supporters of the mobilehome park assistance issue should be mindful of the potential benefit of a political symbiosis that can occur if we associate with affordable housing.

Rather than focus on the form of manufactured housing and the often negative connotations it engenders let us encourage those concerned to look at what manufactured housing provides -- affordable housing.

Conclusion

I believe that market forces are on the verge of making manufactured housing the home ownership opportunity for Californians of average means. Financing and the inertia of "standard operating procedure" are a temporary obstacle to the potential for change. The commitment that Senator Craven and the other Senators on the Committee have shown to this cause, have and will mean progress for the cause of affordable housing for a great many Californians.

If I may help answer any questions you may have, please call.

Sincerely,

Robert G. Spelman

RGS:ms

cc: Ms. Marie Malone
Mr. Jerry Rioux

CHUCK CLARKE
Director

STATE OF WASHINGTON
DEPARTMENT OF COMMUNITY DEVELOPMENT
Ninth & Columbia Building, MS/GH-51 • Olympia, Washington 98504-4151 • (206) 753-2200

October 31, 1991

Mr. John Tennyson, Committee Consultant
Senate Select Committee on Mobile Homes
1020 "N" Street, Room 520
Sacramento, California 95814

Dear Mr. Tennyson:

We would like to thank you for the time you spent with us earlier this month discussing issues related to manufactured housing programs and policies. The information you provided and the history you have in dealing with so many issues will help us to address similar problems in Washington State. We're hoping to model our programs after your many successes. Thank you for your assistance.

If there is anything we can do for you or if there is any information we can provide, please feel free to call either of us any time.

Sincerely,

Bill Lynch

Bill Lynch, Attorney/Analyst
House Housing Committee
Washington State House of Representatives
(206) 786-7092

Mimi Curry

Mimi Curry, Section Manager
Office of Manufactured Housing
Housing Division
(206) 586-6865

BL:MC:km

HUD NON-ASSISTED PROGRAM FOR MANUFACTURED HOME PARKS SECTION 207(m)

U. S. Department of Housing and Urban Development - Fact Sheet

WHAT IT IS

A program to finance the construction or rehabilitation of manufactured home parks.

ELIGIBLE PROJECTS

Projects may consist of either of spaces to be built or of existing parks to be rehabilitated.

Projects may vary widely in layout, size and design, depending on the type of market to be served.

Projects must be built in conformity with the Standards for Manufactured Home Installations (Manufactured Home Site, Communities and Set-ups) ANSIA 225.1 (available from the National Conference of States on Building Codes and Standards, 481 Carlisle Drive, Herndon, Virginia 22070, Area Code 703-437-0100.

Rents, rate of return and methods of operation will be regulated by HUD.

Prevailing wage requirements pursuant to Davis-Bacon Act apply to projects insured under Section 207(m).

ELIGIBLE MORTGAGORS

Individuals, partnerships, corporations or other legal entities approved by the Commissioner.

PROPERTY REQUIREMENTS

The park must be located on real estate held:

(a) in fee simple,

(b) on a leasehold for not less than 99 years or having a period of 75 years to run from the date the mortgage is executed, or

(c) on a leasehold for 50 years, provided the lessor is a Government agency, Indian or Indian tribe.

FINANCING

Approved HUD private lending institutions must originate the loans.

OCCUPANCY REQUIREMENTS

No income requirements.

The mortgagor may not require as a condition of occupancy the purchase of a manufactured home from a specific dealer or manufacturer.

No space may be rented for a period of less than 30 days.

No restrictions due to race, creed, sex, color or age of the prospective tenant or family composition. Manufactured home parks for the elderly are now permissible under recent legislation.

MORTGAGE LIMITS

The maximum mortgage cannot exceed the lesser of:

(a) 90 percent of HUD's estimate of the value of the park after the construction of improvements or completion of substantial rehabilitation.

(b) An amount equal to $9,000 per space.

The sum mentioned in (b) above may be increased by up to 75 percent in high cost areas and by up to 140 percent on a case-by-case basis.

Mortgage term is limited to 40 years.

The interest rate is negotiated between the lender and the sponsor.

Repayment-level annuity monthly plan (equal monthly payments to principal and interest).

Special limitations apply when park is on leased land. HUD offices will explain how these affect a specific situation.

HOW SPONSOR SHOULD PROCEED

Preliminary conference with HUD Field Office for identifying locality, general site, number of spaces and rents to be charged.

If project appears acceptable, sponsor will be asked to submit application (Form HUD-2013) for a Site Appraisal and Market Analysis Letter (SAMA Letter) or feasibility determination in the case of substantial rehabilitation.

After analysis HUD will advise the sponsor of its findings by issuance of the SAMA letter in the case of new construction or feasibility letter in the case of substantial rehabilitation.

Sponsor then submits a formal application and exhibits, through an FHA-approved mortgagee and if approved, HUD will issue a conditional commitment.

After the final submission is made by the mortgagee in compliance with the conditional commitment, a firm commitment will be issued.

FEES AND CHARGES

For new construction, the total application fee for multifamily mortgage insurance is $3.00 per $1,000 of the requested mortgage amount. The fee may be paid in three increments of $1.00 per $1,000 of mortgage amount at each of the three application stages - Site Appraisal and Market Analysis (SAMA), Conditional Commitment and Firm Commitment. A sponsor may be allowed to combine the first two or all three application stages. In those cases, a combined fee would be collected at the time the combined application is submitted.

In the case of substantial rehabilitation, the SAMA stage is replaced by the Feasibility stage for which no fee is required. However, the application fee for Conditional Commitment stage is $2.00 per $1,000 of mortgage amount requested and an additional $1.00 per $1,000 of mortgage amount requested at Firm Commitment stage bringing the total application fee to $3.00 per $1,000 of mortgage amount requested.

Inspection fee, $5.00 per thousand dollars of commitment amount.

Mortgage insurance premium, first premium collected in advance at rate of 1/2 of 1 percent of the mortgage amount.

Construction and permanent loan fees totaling 3 1/2 percent are allowed in the mortgage. Normally, 2 percent is allowed for the construction loans and 1 1/2 percent for permanent loans.

LEGAL AUTHORITY

Section 207, National Housing Act of 1934. (Public Law 73-479).

SCOPE OF PROGRAM

Cumulative activity through September 1988: 386 projects with 66,145 spaces insured with a value of $205.25 million.

INFORMATION SOURCE

HUD Field Offices

ADMINISTERING OFFICE

Assistant Secretary for Housing-Federal Housing Commissioner

COACH

2605 Camino del Rio South San Diego, CA 921■ 08 (619) 294-2646
SUITE # 111

COACH (COrporation for Affordable Communities and Housing) is a land trust, a membership organization dedicated to preserving affordable housing, and particularly mobile home parks, in San Diego County as affordable housing forever. COACH works with resident associations to purchase mobile home parks, rehabilitate them, and operate them on a cooperative basis.

Threatened Housing ... Threatened Mobile Homes
Throughout San Diego County, the little existing affordable housing is at risk. In particular, many of the residents of mobile home parks live in fear of displacement from large rent increases or from park closures. Like other tenants, many mobile home owners live on very low incomes, and face homelessness if they are displaced.

The Creation of COACH
COACH was born in 1991, through the struggle to stop the conversion of Coastal Trailer Villa, an older 90-space park, into condominiums and offices. The residents organized, stopped the park closure, and persuaded City Council to downzone the property to reduce its development potential.

As they negotiated with the owners to purchase the park, the residents recognized a need to create a nonprofit which could help them to purchase the park and keep it affordable forever. Leaders in other parks also got excited about this idea, and helped to develop COACH's organizational structure, which is controlled by residents but also includes non-resident professionals with development and management skills.

COACH'S Next Steps
COACH is actively working with the residents to purchase Coastal Trailer Villa and other parks which become available. We are spreading the word about the COACH alternative of "nonprofit/less worry ownership" to resident associations in older parks across the county, and asking residents and people concerned about affordable housing to join COACH! Your membership will support this ownership alternative and affordable housing resource.

COACH BOARD MEMBERS (list in formation)
Marguerite Ferrante, Coastal Trailer Villas
Elodia Gonzales, Silver Wing Mobile Home Park
Dexter Goody, California Association of Mobile Home Owners
Susan Hawks, Attorney
Linda Kelly, Acacia Imperial Mobile Home Park
Suzan Ray, Rancho San Luis Rey Mobile Home Park
Sue Reynolds, Housing Financing Consultant
Jean Zaddock, Linda Vista Mobile Home Park

GOLDEN STATE MOBILHOME OWNERS LEAGUE, INC.

GSMOL

"A Homeowners Association"

October 2, 1991

TO: Senator William Craven, Chairman
SENATE SELECT COMMITTEE ON MOBILHOMES
State Capitol, Room 3070
Sacramento, CA 95813

FROM: Inge M. Swaggart, VP
RESIDENT OWNERSHIP PROGRAM
G S M O L, Inc.
P. O. Box 202
San Carlos, CA 94070-0202
(415) 593-6041

SUBJECT: Funding for conversion of rental mobilhome parks to resident ownership

Financing is one of the most difficult obstacles to overcome in a mobilhome park purchase.

There are three major categories of sources for funding -

1. Conventional lending institutions i.e. Savings & Loans, Banks, Mortgage Brokers, Insurance companies, etc.
2. Seller Financing - beneficial to both seller and buyer.
   The seller can benefit with respect to possible tax defferal of capital gains or assumption of his outstanding loan(s).
   The buyers can benefit from preferential terms and conditions of the loan(s) required.
   By carrying paper the seller assures himself an income stream secured by his own property - he now gets the income without all the headaches !!
3. Public Financing - Many government agencies - city, county, state and federal have financial subsidy programs for residents who have varying financial needs. The California Department of Housing and Community Development (HCD) is the lead agency for the state's MPROP Program.

GSMOL®is

SUBJECT: Funding for conversion of rental mobilhome parks for resident ownership (Cont'd)

Being aware of the imminent depletion of the MPROP Fund and also the inadequacy of the $5 per section assessment previously imposed on all mobilhome owners to create the fund, GSMOL met with HCD in January of 1991. The purpose of the meeting was to discuss the usage of the assessment and evaluate the success and effectiveness of the program. GSMOL wanted to be prepared with recommendations for a hearing such as you are holding today. We received a written reply in February with partial answers that could not be accurately computed. Realizing that the HCD was in "transition" and that our concerns were not top priority items, we have patiently waited for another opportunity to obtain additional information to offer proper suggestions for adjustments to the program, in the form of legislation or administrative regulations, if necessary.

Attached to this testimony as Exhibits A, B & C are the MPAP reports for 1986-1987, 1988-89 and 1989-90, excerpted from the Loan and Grant Program Annual Report. This also is inadequate.

The following recommendations are made for additional funding for the program:

1. DO NOT increase the assessment on the individual homeowners ($5.00/section)
2. Cap the conversion COST loans at a set amount(sample: $20,000) to be used to establish feasability of acquisition by residents.
3. Let local jurisdictions exhaust all of their CDBG, Redevelopment and bonding programs prior to qualifying for state funds.
4. What additional funds are made available thru the new NATIONAL AFFORDABLE HOUSING ACT?
5. SB 501 (Craven) Bonding up to $25 Mill in Revenue Bonds be reserved as a last resort for <u>Purchase assistance</u>, OR INCREASED TO $50 MILL

--

SUBJECT: Funding for conversion of rental mobilhome parks for resident ownership (Cont'd)

5. SB 501 (Cont'd)

And that prior to release of funds the following be completed in the interest of CONSUMER PROTECTION !!!!!!

(a) Hazardous Waste Survey completed
(b) Low/Moderate Income Survey
(c) Preliminary Title Report
(d) Certificate of financial institution certifying to the financial viability of the acquisition
(e) HCD Inspection certifying to the condition of the mobilhome park

6. AB 732 - Assemblyman Hauser - Portions of this bill were not acceptable to GSMOL and amendments were proposed. Among them a $125.00 TRANSFER FEE TOTAL per mobilhome sale. With approx. 64,000 sales per year, approximately $8,000,000 could be added to the MPROP Program.

7. 501(c) (3) Bond Financing - attached Exhibit D - self-explanatory This acquisition involved HCD $518,000 deferred loan. This is the reason for suggesting the consumer and STATE protection in item #5 above.

8. Any part of $600 Million (Prop 77, 84 & 107) available for low income ? It seems that the heavy leveraging (also allowed in SB 604-Presley/Craven) of loans and the lack of proper monitoring, especially in L/EHC's -limited equity housing cooperatives and stock cooperatives - without proper reserves in the operating budgets and long term 30 year loans have been the culprit responsible for depleting the MPROP funds - a fund that was to be REVOLVING in order to assist as many mobilhome owners as needed assistance since all the mobilhome owners in the state are contributing to the program. In some cases the state is in 3rd and 4th position on outstanding loans and will not be paid until the primary lien holders are paid in full.

<<<<<<<<<*>>>>>>>>>

EXCERPT FROM: CALIFORNIA HCD LOAN and GRANT PROGRAM ANNUAL REPORT

1986-1987

MOBILEHOME PARK ASSISTANCE PROGRAM

Mary Ann Karrer, Section Chief
Gerald Rioux, Program Manager
(916) 445-0110

PROGRAM HISTORY AND DESCRIPTION

The Mobilehome Park Assistance Program (MPAP) provides technical and financial assistance to mobilehome park residents who wish to purchase their parks and convert them to resident ownership. The technical assistance component of the program was established by the statutes of 1983 (Health and Safety Code Sections 50780 et seq.). The program was expanded in 1984 when a financial assistance component was added. A $5 per section surcharge on mobilehome registrations for calendar years 1986 through 1988 provides between $2.0 and $2.5 million annually for the program.

MPAP makes three types of loans: conversion loans to mobilehome resident associations for interim financing related to the conversion; individual loans to mobilehome park residents for long-term financing; and blanket loans to resident organizations for long-term financing. The loans bear an annual 7% interest rate. While conversion loans must be repaid within three years, blanket and individual loans may be scheduled for up to 30 years. Loans may be used by the residents to purchase their park, to finance the conversion process, and to assist individuals to purchase a lot or shares in their park once it is converted.

SUMMARY OF ACCOMPLISHMENTS

During FY 1986–87, a request for proposal with three filing periods was released. A total of 17 applications were received, and nine were funded for a total MPAP commitment of $3,940,000. Of the nine, two were for the acquisition of the mobilehome park by resident organizations. MPAP funds will subsequently be converted into individual interests. The remaining awards were for projects in which the residents had already purchased their parks, but MPAP funds were needed to make it possible for low-income residents to acquire their individual interest and to reduce their housing costs to an affordable level.

Examples of projects funded with MPAP assistance follow:

Rancho Escondido Mobilehome Park

The Rancho Escondido Mobilehome Park conversion project, located in the City of Escondido, received a $1 million MPAP award. The 338-space condominium park was assisted through the combined efforts of the City of Escondido, the State of California, and private lenders. With a total cost of $12.86 million, the average cost per space or lot was $38,037. MPAP funds in addition to $500,000 in city funds and private loans made it possible for 130 low-income families to purchase their spaces.

The Groves Mobilehome Park

The Groves Mobilehome Park, located in the City of Irvine, received $822,500 from the MPAP program to convert the 533-space park to resident ownership. The park also received financing from the City of Irvine and private lenders. With a total cost of $25,256,628, the average cost per space was $47,386. MPAP funds, in addition to $250,000 in City funds and private loans, made it possible for 35 low-income families to purchase their spaces.

Sierra Vista Mobilehome Park

The Sierra Vista Mobilehome Park, located in the City of Vista, became a condominium in June of 1987. In addition to a $469,622 MPAP loan, the 98-space park received financing from the County of San Diego and private lenders. With total conversion costs of $2,678,175, the average conversion cost was $27,328. MPAP assistance, in addition to county funds and private loans totalling $464,404, made it possible for 37 low-income residents to purchase their spaces.

EXHIBIT "A"

DATA SHEET

MOBILEHOME PARK ASSISTANCE PROGRAM

	1986–87
1. Number of Individuals Assisted	354
2. Income Group of Individuals Served (%):	
Moderate 81–120%	0
Low 50–80%	52%
Very Low below 50%	48%
3. Distribution by Area (%):	
North (Monterey, Kings, Tulare, Inyo north)	19%
South (San Luis Obispo, Kern, San Bernardino south)	81%
4. The Amount of Funds Leveraged by the Assistance ($):	
Federal	1,435,000
Other HCD	0
Other State	0
Local	803,000
Private	46,058,253
5. Assistance Provided To (%):	
Disabled	N/A
Seniors	85%
Farmworkers	N/A
Native Americans	N/A

MOBILEHOME PARK ASSISTANCE PROGRAM

Authority: Health and Safety Code section 50780 et seq., Statutes of 1984, Chapter 1692

	Fiscal Year 1988-89	Total Program Activity to Date
SS Awards	S 2,733,800	S 9,704,974
No. Awards	6	26
Households Assisted	138	673
Leverage	20,524,876	137,317,808

To preserve housing affordability for mobilehome park residents, Mobiiehome Park Assistance Program (MPAP) loans are made available to assist resident purchase and ownership of existing mobilehome parks. Available to all low-income households, MPAP funds have assisted with the conversion of twenty parks throughout California.

The program provides both financial and technical assistance to park residents wishing to convert a mobilehome park to resident ownership. Seven percent simple interest MPAP loans are awarded to resident organizations to cover the costs associated with the purchase of a mobilehome park, financing the conversion process, and purchasing a lot or shares in the converted park.

EXCERPT FROM : CALIFORNIA HCD LOAN and GRANT PROGRAM ANNUAL REPORT 1988- 1989

EXHIBIT "B"

Mobilehome Park Assistance Program (MPAP)

FISCAL YEAR - ACTIVITY SUMMARY

	FY 89/90	FY 84/85-89/90
$$ Awards	$5.6 M	$14.6 M
No. Awards	8	28
No. Parks Asst'd	8	28
Total Hshlds Asst'd	335	990
Low-income Hshlds Asst'd	335	990
Leverage	$46.7M	$182.6M
Leverage %	840.1	1,250.6

M=Million

EXCERPT FROM:

CALIFORNIA HCD LOAN and GRANT PROGRAM - ANNUAL REPORT 1989-1990

PURPOSE: To assist low-income residents to purchase mobilehome parks to preserve housing affordability.

TYPE & TERMS OF ASSISTANCE: Financial and technical assistance to mobilehome park resident organizations that are purchasing their park. Seven percent (7%) simple interest, short-term loans of up to three years for costs of park ownership conversion, and long-term loans up to 30 years for permanent blanket or individual loans.

ELIGIBLE ACTIVITIES: 1) Short-term conversion loans to facilitate park purchase by a resident organization corporation. 2) Long-term blanket loan for park purchase by a resident organization corporation where loan benefits are exclusively used to assure affordable housing costs for low-income park residents. 3) Individual loans to low-income park residents to assure housing affordability when they purchase a cooperative interest or condominium space.

ELIGIBLE APPLICANTS: Coapplicants must be an organization formed by mobilehome park residents and a local government agency.

APPLICATION PROCEDURE: Requests for Proposals (RFPs) are issued as funds are made available.

AUTHORITY: Health and Safety Code Section 50780, et seq., Statutes of 1984, Chapter 1692.

CONTACT: Christine Webb-Curtis, Manager, Homeownership Loan Unit, (916) 445-0110.

FISCAL YEAR--ACTIVITY SUMMARY: Nearly $6 million was made available for award this year because of repayments to MPAP and contributions from the Mobilehome/Manufactured Home Revolving Fund. Applications were received throughout the year during six filing periods. Eight projects were funded for $5.6 million.

MPAP is becoming increasingly involved in assisting park conversion to tenant ownership in cases where the park owner plans to subdivide and sell individual spaces. Park subdivision by original sellers often increases space costs for mobilehome owners and results in displacement of both low- and moderate-income renters. The first applications for this type of assistance were received this fiscal year; review and award determination was not complete by the end of the fiscal year.

Legislated changes in program regulations have resulted in increased project flexibility -- the interest rate of loans was reduced from 7 to 3 percent; and loans may now pay for up to 90 percent of the total cost of park conversion.

EXHIBIT "C"

Loan Management Unit

CIAP = California Indian Assistance Program
CHAP = California Housing Assistance Program
MPAP = Mobilehome Park Assistance Program
DPRLP = Deferred Payment Rehabilitation Loan Program
SUHRP = Special User Housing Rehabilitation Program
CHRP-R = California Housing Rehabilitation Program-Rental Component

RHCP = Rental Housing Construction Program
RHCP RURAL-RA = Rental Housing Construction Program-Rural Assistance Component
OMS ADM. = Office of Migrant Services-Administration Component
OMS CONST. = Office of Migrant Services-Construction Component
OMS-ND = Office of Migrant Services-Natural Disaster Component

AWARDS: FY 1989 90	CIAP	CHAP	MPAP	DPRLP	SUHRP	CHRP-R	RHCP*	RHCP RURAL-RA*	OMS ADM.	OMS CONST.	OMS-ND	UNIT SUBTOTAL
NO. NEW AWARDS	For Tech.	For Award	For Award	For Award	For Award	For Award	0	0	18	14	2	34
$$ NEW AWARDS	Assistance	Activity See	Activity See	Activity See	Activity See	Activity See	$0	$0	$4,397,560	$667,562	$313,070	$5,378,192
NO. AWARDS AMEND./CONT.	Activities	Loan Unit	Loan Unit	Rehab. Unit	Rehab. Unit	Rehab. Unit	31	38	0	0	0	69
$$ AWARDS AMEND./CONT.	See Grants-II	Chart	Chart	Chart	Chart	Chart	$670,453	$1,204,913	$0	$0	$0	$1,875,366
TOTAL NO. NEW + CONT.	Chart	0	0	0	0	0	31	38	18	14	2	103
TOTAL $$ NEW + CONT.	$0	$0	$0	$0	$0	$0	$670,453	$1,204,913	$4,397,560	$667,562	$313,070	$7,253,558
NO. PUBLIC ENTITIES	0	0	0	0	0	0	31	2	18	14	2	67
$$ PUBLIC ENTITIES	$0	$0	$0	$0	$0	$0	$670,453	$69,491	$4,397,560	$667,562	$313,070	$6,118,136
NO. FOR-PROFIT ORGS.	0	0	0	0	0	0	0	30	0	0	0	30
$$ FOR-PROFIT ORGS.	$0	$0	$0	$0	$0	$0	$0	$975,946	$0	$0	$0	$975,946
NO. NON-PROFIT ORGS.	0	0	0	0	0	0	0	6	0	0	0	6
$$ NON-PROFIT ORGS.	$0	$0	$0	$0	$0	$0	$0	$159,476	$0	$0	$0	$159,476
$$ - AWARD LEVERAGE												
FEDERAL - OTHER	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,157,110	$0	$5,157,110
TOTAL	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,157,110	$0	$5,157,110
LEVERAGE %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	772.5%	0.0%	71.1%
CUMULATIVE AWARDS												
FY PROGRAM ESTABLISHED	1971	1979	1985	1979	1979	1989	1979	1979	1965	1965	1989	
TOTAL NUMBER OF AWARDS	0	0	0	0	0	0	49	39	444	291	2	825
TOTAL $$ AWARDED	$0	$0	$0	$0	$0	$0	$59,976,354	$12,180,000	$26,021,187	$18,870,438	$313,070	$117,361,049
TOTAL $$ LEVERAGED	$0	$0	$0	$0	$0	$0	$103,300,000	na	na	$13,800,000	$0	$117,100,000
LEVERAGE %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	172.2%	0.0%	0.0%	73.1%	0.0%	99.8%
ADM. ALL ACTIVE AWARDS												
NUMBER OF CONTRACTS	0	316	21	527	57	0	49	39	18	14	2	1,043
$$ VALUE OF CONTRACTS	$0	$8,380,220	$12,259,256	$9,174,600	$16,919,996	$0	$59,976,354	$5,787,221	$4,397,560	$667,562	$313,070	$117,875,839
NO. HSG. UNITS AFFECTED	0	280	3,439	530	1,759	0	1,341	812	2,152	2,152	100	12,565

Pg 2of3
"C"

PRODUCTION ANTICIPATED FROM FY 1989-90 AWARDS	CIAP	CHAP	MPAP	DPRLP	SUHRP	CHRP-R	RHCP	RHCP RURAL-RA	OMS ADM.	OMS CONST.	OMS-ND	UNIT SUBTOTAL
NEW: RENTAL UNITS	0	0	0	0	0	0	0	0	0	100	See OMS-N	100
PROGRAM $ PER UNIT	$0	$0	$0	$0	$0	$0	$0	$0	$0	$51,591	Narrative	-
REHAB: RENTAL UNITS	0	0	0	0	0	0	0	0	0	1,743	Report for	1,743
PROGRAM $ PER UNIT	$0	$0	$0	$0	$0	$0	$0	$0	$0	$383	Activity	-
INSPECTIONS	44	0	0	0	0	130	34	0	0	0	Description	208
PROGRAM $ PER INSPECTION	[illegible]	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	-
OTHER	0	0	0	0	0	0	0	0	2,152 FU**	0	0	2,152 FU**
PROGRAM $ COST PER UNIT	$0	$0	$0	$0	$0	$0	$0	$0	$2,043	$0	$0	-
% VERY LOW INCOME	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	67.0%	67.0%	0.0%	0.0%	0.0%	-
% LOW INCOME	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.0%	33.0%	100.0%	100.0%	0.0%	-
% NORTHERN CALIFORNIA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	53.0%	71.0%	92.0%	10.0%	0.0%	-
% SOUTHERN CALIFORNIA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	47.0%	29.0%	8.0%	90.0%	0.0%	-
% URBAN AREAS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	-
% RURAL AREAS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%	0.0%	-
CUMULATIVE PRODUCTION												
FY PROGRAM ESTABLISHED	1971	1979	1985	1979	1979	1989	1979	1979	1965	1965	1989	
REHAB: OWN. OCCUP. UNITS	0	0	0	0	0	0	0	0	0	100	0	100
NEW: RENTAL UNITS	0	0	0	0	0	0	1,341	812	0	2,152	0	4,305
OTHER	0	0	0	0	0	0	0	0	2,152 FU**	0	0	2,152 FU**

* These columns only report RHCP activity resulting from AB 333 and SB 229-FYs 1979/80 through 1987/88. Activities funded by Propositions 84 and 107 are reported in the Rental Unit charts. All RHCP activity is summarized in the program narrative report.

** FU = "Family Unit." There are 2,152 family units in 26 centers.

Mobile-Home Parks Receive 501(c)(3) Bond Financing

El Rio

El Rio is an older park located in the city of Santa Cruz, California. El Rio has 93 homes and all are older single-wides. The residents of El Rio are primarily older adults and senior citizens, but there are some younger residents and children as well. All of the residents are low-income, under state and federal laws, and most are very-low income.

The residents of El Rio formed a limited equity housing cooperative (LEHC) to purchase and operate their park. They received tax-exempt status from both the state and federal governments. The residents paid $1500 each to purchase memberships in the cooperative; the resale value of these memberships increases at the rate of 3 percent per year.

The city of Santa Cruz issued $1.3 million in 501(c)(3) bonds to finance El Rio. The consultants for the park negotiated with a local lender to purchase the bonds and provide the financing for the park. The residents save at least 2 percent on their interest rate. The bank earns a fairly high tax-free income and receives benefits under the Community Reinvestment Act.

The California Department of Housing and Community Development provided a $518,000 deferred loan under the Mobilehome Park Assistance Program to ensure that the park was affordable to the residents after the purchase. After the purchase, many of the residents paid less to live in the park than they did prior to the conversion.

FRONT PAGE STORY

El Rio Park Notice

The state officials' action is unnerving to some El Rio residents but actual closure of the park remains only a remote possibility.

"I've lived here for 15 years and I'm not worried they're going to shut down the park and throw us out on the streets," said El Rio Cooperative vice president Jake Singleton. "There's too much political pressure against that sort of thing."

The residents who own the El Rio have not yet, however, begun to line up political support in case the state decides to pay hardball about the expensive repairs needed to bring the park up to code.

Supervising inspector Fritz Lignau is coming to meet with the resident owners of El Rio Aug. 8.

"Were hoping to work things out with Fritz, we're hoping they're going to be reasonable," Singleton told THE NEWS.

The major snafu at this point is that the state inspections have held up state loans needed to finance a needed upgrade of the electrical system at the park.

"It's an aggravation," Singleton conceded, "that the state keeps running us around the mulberry bush."

Numerous other minor violations already have been repaired since the state first objected last spring.

EXHIBIT "D"

State Inspectors Return

El Rio To Get Month To Correct Problems

by Bob Johnson

State housing inspectors have returned to the El Rio Mobilehome Park and indicated they will be sending a 30-day notice to rectify code violations or cease operating the park.

State housing inspector Larry Fayler visited the downtown Santa Cruz low income park July 15 and again July 17.

Fayler apparently concluded that the park has not made adequate progress in repairing numerous code violations that were first discovered last spring when the residents asked for an inspection in preparation for a major upgrade of the facility.

"On the 17th they said they we're going to send an MP-2 letter. It's a letter to conform or quit, it's a 30-day notice of permit suspension," said El Rio manager Tom Payton.

The El Rio is the only low income park anywhere in Santa Cruz County that is owned by the residents.

Troubles with the inspectors already have stalled a previously approved refinancing with low interest state loans and also has, ironically, stalled financing for the repairs the state claims need to be done.

RESEARCH
GSMOL@is

AUGUST 11, 1991

**SENATE SELECT COMMITTEE
ON
MOBILEHOMES**

You have heard from some of the professionals in the field of resident park purchase. Without their knowledge and willingness to assist the resi dents, these very complex real estate transactions would stand very little chance of being successfully completed.

We need their services to make the program work for the residents. But, we must bear in mind that the professionals cannot do all of it alone.

We also need a source of investment monies to assist the low income residents to enable them to participate in the purchase.

There are 30 parks in the process of purchase today and twenty to twenty five per cent of the residents in each of those parks will be low in come. We must realize we are not talking about charity, we are talking about a investment which statistics of the current and past MPROP program confirm as a good investment. It is my understanding that in its six year history that the program has yet to experience its <u>first default.</u>

It is also a very sound investment for government from another angle. It is the least expenditure of state funds which will assure a low income per son affordable housing now and in the future.

As you know manufactured housing has become Californias affordable housing. Resident park purchase and financial assistance which enable low in come to become a part of that process improves the amount of affordable hous ing in the State of California.It is one of the few state housing programs that I am aware of that produces a truly win, win situation for all parties involved, i.e the resident park owners stabilize their housing costs, the low income are assured of continued home ownership, the tax payers money is returned to government with interest and the park owner has received a good profit on the sale of his property. Can any of you think of a better all around deal to insure the preservation of our affordable housing stock.

Today, we have been asked to recommend solutions to the financing of the MPROP program. You have heard some recommendations from those who have testified today. Of course you also have the pending bills in the legisla tion on bonds and fees. You are also very much aware that there will always be some who object to whatever choice is finally made by the legislature. However, we must make a choice. What should we pursue, bonding, raising license fees, a transfer fee and in addition is there anyway to enhance the residents ability to obtain loans in the financial market that would cause less drain on MPROP funds.

1. Bonding appears would require some rewriting of the current program

2. Raising license fees would mean the mobilehome owner is once again asked to be the main support for all lower income families living in mobilehomes. This seems to me a rather skewed responsibility upon mobilehome owners.

3. Transfer fee upon the sale or resale of a manufactured house. This would be equivalent to the set aside funds from todays newly developed site built housing that must be used for low income housing. In both cases, a fee is imposed upon the home buyer, directly or indirectly.

4. The additional programs that could enhance the opportunity for loans from lending institutions to lift some of the burden from MPROP would be a state program of Mortgage Guarantee Insurance.

5. Opening the secondary market for mobilehome loans would help a lot. The new foundation system being classified as a permanent foundation by FHA may enhance the opportunity for a secondary market.

Which choice should we make?

I suggest we pursue more than one avenue to reach our goal. I recommend that we go for the transfer fee to sustain a steady flow of cash for future years.

3

I recommend that we seek the sale of bonds as a source of funding for low income housing. I believe we should establish the fact that the low income to retain their low income housing should receive the same consideration for Bond money as those low income who are seeking site built housing. They are all low income families trying to seek housing.

We should seek to either to establish or authorize the current California Housing Insurance Fund under the California Housing Finance Agency to en large its scope of coverage to include mobilehomes within its single family homes program. This will greatly enhance the mobilehome owners ability to ob tain both private loan funding and I am told will improve the attractiveness of bonds. Low income are low income, wherever they live and should not be clas sified for assistance because of the type of construction of their home.
If we really believe there is a great need in California for affordable housing then we are looking at one of the great solutions to the problem - resident owned Manufactured housing communities that become common interest developments can provide thousands of affordable units of housing at minimum cost.

It is time for the experts of the industry, the housing staff elements of government and the elected representatives of the people to knock down the barriers and produce the solutions. We should and we can if we have the will and if all the elements work together to achieve the goal!

Lets stop treating manufactured housing as a third cousin removed from the housing industry and look at it for what it is - the affordable house of the housing industry - the first entry into home ownership for the young and the last home owned by the elderly. It is the majority stock of affordable housing for California, where the home owner is also the landowner.

Presented by Marie Malone, CEO The Associates Group For Affordable Housing

608-S
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