



COUNCIL AGENDA: 1-10-06
ITEM: 9.4(c)

Memorandum

TO: HONORABLE MAYOR, CITY
COUNCIL AND REDEVELOPMENT
AGENCY BOARD

FROM: Del D. Borgsdorf
Harry S. Mavrogenes

SUBJECT: SEE BELOW

DATE: January 6, 2006

COUNCIL DISTRICT: Citywide
SNI Area: All

**SUBJECT: CREATION OF A CITY/SAN JOSÉ STATE UNIVERSITY PILOT
HOMEOWNERSHIP PROGRAM FOR UNIVERSITY FACULTY**

RECOMMENDATION

It is recommended that the:

- a. City Council adopt a resolution approving a pilot Homeownership Program for tenure track faculty at San Jose State University and making findings that the use of 20% Housing Funds in connection with certain housing projects outside a redevelopment area and for San Jose State University tenure track faculty is of benefit to the San Jose Redevelopment Agency's project areas; and
- b. Redevelopment Agency Board approve the first amendments to four Disposition and Development Agreements for Historic Houses between the Redevelopment Agency and Spartan Shops, revising the agreements to require the Agency to subordinate the Agency's interest in the homes to the University's third party financing for the Homeownership Program identified above, and authorizing the Executive Director to execute ancillary documents contemplated by the amended Disposition and Development Agreements.

BACKGROUND

San Jose State University (SJSU) is the oldest institution of higher education in California. With an enrollment of 30,000 students, 4,500 faculty and staff, and an annual budget of \$400,000,000, the University is a major asset in the community, and particularly in Downtown San José, where its campus is located.

As housing prices have escalated in the San José market area over the past two decades, it has been increasingly difficult for the University to recruit and retain faculty and staff. In 2001 and 2002, the Agency Board approved four Disposition and Development Agreements (DDAs) with

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Spartan Shops, the business arm of the University, under which the Agency conveyed to Spartan Shops a total of four historic houses that were being relocated from the Civic Plaza Redevelopment Project Area. The agreements required the University to record 30-year covenants on each house limiting the use for faculty and staff rental housing. After acquiring and extensively rehabilitating the houses, the University has provided housing at below market rents to seven employee families.

As the University continues to explore rental housing assistance for faculty and staff, it recognizes the need to provide homeownership opportunities as well. The University, with the City and Agency's assistance, is now proposing to initiate the San Jose State University Homeownership Program. This program would be administered by the City's Housing Department and provide University faculty with down payment assistance to help the University with nationwide recruitment of tenure track faculty. These positions are frequently the most difficult to fill because faculty salaries in the California State University System are set statewide and tend to be the same, regardless of the cost of living in particular geographic areas.

ANALYSIS

The proposed pilot program will initially be funded with \$500,000 from the 20% Low and Moderate Income Housing Fund and \$500,000 from equity that the University can borrow from the historic houses by the DDA amendments described below. The program will be modeled after the City's successful Teacher Homebuyer Program and will assist 15 to 20 low-to-moderate income faculty members at SJSU with down payment assistance of up to \$65,000 each. Loans will accrue 0% interest and will include one of two repayment provisions at the earlier of resale or transfer of ownership. Sellers will have the choice of (1) selling to another eligible low or moderate-income faculty member able to assume the City loan or (2) repaying the City the loan principal in addition to an equity share amount.

SJSU's contribution to this pilot program will come from equity in four historic properties. These properties were renovated by the University in 2002 at a cost of approximately \$1,300,000. The houses, which were transferred to the University, include Agency investments ranging from \$370,000 to \$470,000 each for site acquisition, moving costs and related foundation and site work, and soft costs such as design and permits.

The DDAs required the University to record covenants that limit the University's use of the houses to faculty and staff rental housing. The agreements currently provide that the Agency will only subordinate its interest in these covenants to debt used to improve the properties that does not exceed 90% of the property's market value. To make refinancing proceeds available for the proposed homeownership program, the proposed first amendments would require the Agency to also subordinate to a third party lender so long as the proceeds are used only for the Homebuyer Program and all debt does not exceed 90% of the value of the property. Because the refinancing proceeds funds are being generated from funding originally made available through the Redevelopment Agency, they are subject to State law restrictions on the use of Agency

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funds. The University's use of the funds must be restricted to low/moderate housing within the City of San Jose, consistent with the City's Homebuyer Program. The University believes that at least \$500,000 can be made immediately available from the historic homes.

If approved by the City Council, the Housing Department will initiate the program during the first quarter of 2006 with a goal of conducting a formal evaluation of the program during the last quarter of 2006. City staff will submit a report to the City Council with the evaluation results.

FINDINGS

The City, on behalf of the Agency, has a program to administer and distribute 20% Low and Moderate Income Housing Funds and other Agency Funds and in order to attract capital investment, eliminate blight and achieve other redevelopment objectives, there is a need to encourage and assist housing of all income levels throughout the City. The provision of low and moderate income housing throughout the City near jobs will serve to facilitate employment opportunities for all citizens of the City, revitalize neighborhoods that are near or adjacent to redevelopment areas and generally assist efforts in redevelopment areas. The use of 20% Low and Moderate Income Housing Funds and other Agency Funds outside the Agency redevelopment project areas by assisting proposed low and moderate income housing development outside these project areas will be of benefit to these project areas.

The City finds that the SJSU Homebuyer Program is in accordance with the City's stated goal of fostering partnerships with San José State University to promote economic and strategic development of the City and the University. Specifically, the development of a homeownership program for SJSU faculty is consistent with the recommendations of Economic Development Strategy #3: Develop Strategic Partnerships with San Jose State and Other Universities to Drive Innovation and Economic Impact. Because the median sales prices of for-sale housing in San Jose exceed \$479,000 for condominiums and townhomes and \$700,000 for single-family detached homes, and most starting annual salaries for tenure-track faculty fall between \$54,000 and \$61,000, homebuyer assistance will permit the University to better recruit the most qualified candidates to SJSU.

COST IMPLICATIONS

The New Pilot Program is projected to cost \$1,000,000. \$500,000 will be funded by the Housing Department's Fiscal Year 2005-06 20% Low and Moderate Income Housing Fund revenue of \$29 million, which is sufficient to cover the Department's initial contribution to the Program. San Jose State will raise the remaining \$500,000 following the DDA amendments by refinancing proceeds to be utilized for the program. This refinancing will have no financial impact on the budget of either the Housing Department or the Redevelopment Agency. If the pilot program proves successful, the Housing Department may propose the use of additional 20% Housing Funds to support the continuation of the Program. Future funding appropriation proposals will be addressed through the annual budget process.

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PUBLIC OUTREACH

Housing Department and University staff will conduct targeted outreach to eligible faculty at the University to notify them of the new program through flyers, workshops, and through the Housing Department's website. Staff will also develop collateral materials and conduct lender/broker training courses about the new program. Outreach efforts will be enhanced through collaborative efforts between the City's Department of Housing, the Santa Clara County Association of Realtors, Neighborhood Housing Services of Silicon Valley and the California Association of Mortgage Brokers.

COORDINATION

This memorandum was coordinated among the Housing Department, Office of the City Attorney, and the Redevelopment Agency's General Counsel.

CEQA

Not a project.

BUDGET REFERENCE

Fund #	Appn #	Appn Name	Total Appn.	2005-2006 Adopted Operating Budget	Last Budget Action, Date Ord. No.
443	8150	Earned Revenue	\$69,118,373	Page XI-37	NA

for Ray Woner
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