



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: January 17, 2007

Approved

Date 1-23-07

COUNCIL DISTRICT: 3
SNI AREA: Greater Gardner

SUBJECT: PUBLIC HEARING FOR APPROVAL OF A DISPOSITION AND DEVELOPMENT AGREEMENT FOR THE TRANSFER AND CONVEYANCE OF CITY-OWNED PROPERTY ON THE EAST SIDE OF DELMAS AVENUE, BETWEEN JEROME STREET AND FULLER AVENUE, TO SILICON VALLEY HABITAT FOR HUMANITY, OR AN AFFILIATED ENTITY, FOR A SMALL HOUSING PROJECT

RECOMMENDATION

It is recommended that the City Council hold a public hearing and adopt a resolution approving a Disposition and Development Agreement (DDA) between the City of San José and Silicon Valley Habitat for Humanity, or an affiliated entity, for the development of a single-family home located on a City-owned property located on the east side of Delmas Avenue, between Jerome Street and Fuller Avenue.

OUTCOME

The transfer of the subject City-owned property provides an opportunity for Silicon Valley Habitat for Humanity to develop a single-family residence affordable to very low-income households.

BACKGROUND

As part of the Fiscal Year 2006-07 budget process, the City Council approved the expenditure of \$120,000 by the Housing Department for the "acquisition" of a City-owned property on the east side of Delmas Avenue, between Jerome Street and Fuller Avenue, for the purpose of affordable housing development. In August 2006, the administration of the subject property was transferred from the Public Works Department to the Housing Department.

The site was acquired with the Low- and Moderate-Income Housing Fund (the “20% Fund”) and a noticed public hearing procedure is required for the transfer and conveyance of the subject site. Notice of this public hearing will be published on Monday, January 22, 2007 and on Monday, January 29, 2007. Because this is a “small housing project” under State Redevelopment Law, a summary report of this DDA is not required to be prepared for inspection by the public.

PROJECT DESCRIPTION

The subject DDA addresses the transfer of the following vacant property, which is currently owned by the City of San José:

<u>Location</u>	<u>Acreage</u>	<u>No. of Units</u>
East side of Delmas Ave., between Jerome St. and Fuller Ave.	0.134	1

The City is proposing to transfer the property to Silicon Valley Habitat for Humanity (SVHH), or its affiliate, which would develop the property with one ownership housing unit that would be affordable to a very low-income household earning less than 50% of Area Median Income (AMI). The unit would have three to four bedrooms.

PROJECT BUDGET AND ANALYSIS OF THE TRANSACTION

A. Summary of Proposed Transaction

The conveyance of the property to SVHH, or its affiliate, will be accomplished by a DDA in consideration for 45 years of affordability to very low-income households. No outlay of City funds beyond the \$120,000 already expended is anticipated for the development of the property.

B. Housing Development Budget and Sources of Funds

The total cost to construct the home is estimated to be \$249,000. SVHH will finance this cost – including architecture and engineering, permit fees, labor and materials – through cash donations, pro bono services, SVHH volunteers, and the homebuyer’s “sweat equity”.

C. Financial Analysis and Restricted Expense Levels

The proposed transaction involves the fee transfer by grant deed of City-owned land. The \$120,000 paid by the Low- and Moderate-Income Housing Fund for the property was determined by negotiations between the Housing Department and General Services Department. It is estimated that the fair market value of the property exceeds \$120,000, perhaps by a factor of two or more.

The proposed transaction involves the fee transfer by conditional grant for zero dollars (\$0.00). The transaction is essentially the same as if the City were to be making a grant in the amount \$120,000 to the developer for the acquisition of the site. The consideration for the transfer of City-owned property without cost is the long-term provision of a unit affordable to very low-income households.

The home will be sold at cost – which will be at a below-market price – to an income-qualified homebuyer. The difference between the sales price and the market price of the home will represent a “market discount” to the homebuyer that will be determined at the time of sale, based on market comparables. If the property is subsequently sold at market rate, the “market discount” will be repaid to the City under the terms of the Repurchase Option and Covenant Running with Land agreement to recorded on the property

SVHH will maintain a 45-year affordability resale restriction on the home. This restriction will limit resale of the unit to a very low-income qualified homebuyer at a restricted affordable price. The City will also record an affordability restriction for a term of 45 years, which will be senior to the SVHH affordability restriction. Under the City's affordability restriction, the seller of the unit must sell to a low-income homebuyer, sell back to SVHH for subsequent resale to another income-qualified buyer, or in the alternative, sell to a non-qualified buyer upon repayment of the “market discount” plus an equity share.

POLICY ALTERNATIVES

In reaching the recommendation spelled out above, the following alternative was also considered:

Alternative #1: Hold an auction to all interested affordable housing developers.

Pros: May result in a proposal that would generate income to the Low- and Moderate-Income Housing Fund.

Cons: Few affordable housing developers are geared to producing one house at a time and to successfully marketing for-sale units to very low-income homebuyers.

Reason for not recommending: SVHH has the demonstrated ability to produce for-sale units affordable to very low-income households.

PUBLIC OUTREACH/INTEREST

- Criteria 1: Requires Council action on the use of public funds equal to \$1 million or greater. (Required: Website Posting)***
- Criteria 2: Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. (Required: E-mail and Website Posting)***

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- **Criteria 3:** *Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. (Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)*

Although the recommended action does meet any of the above criteria, this report will be posted on the City's website for the February 6, 2007, City Council agenda. Additionally, notice of this public hearing on the DDA will be published in the San José Mercury News on January 22, 2007 and January 29, 2007. It is anticipated that the process for the development of the property will consist of approvals from the Building Department and will not require hearings before the Planning Commission or City Council.

COORDINATION

Preparation of this memorandum was coordinated with the Office of the City Attorney.

CEQA

CEQA: Exempt PP06-144


LESLYE KRUTKO
Director of Housing

Attachment

For questions, please contact Leslye Krutko, Director of Housing, at 535-3851.