



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko
Larry D. Lisenbee

**SUBJECT: BEGIN PROGRAM GRANTS
FY 2007-2008**

DATE: February 4, 2008

Approved

Date

2/4/08

COUNCIL DISTRICTS: 3, 5, & 6
SNI AREAS: 13th Street;
Mayfair; Burbank/Del Monte;
Washington

RECOMMENDATION

It is recommended that the City Council:

1. Adoption of a resolution authorizing the Director of Housing to accept Building Equity and Growth in Neighborhoods (BEGIN) housing program grants from the California Department of Housing and Community Development (HCD) and to negotiate and execute the grant agreements and any amendments or other documents necessary to implement the programs funded by the following BEGIN grants:
 - a. A \$1,200,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in the Modern Ice condominium development.
 - b. A \$240,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in The One East Julian condominium development.
 - c. A \$360,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in the Tierra Encantada townhome development.
 - d. A \$720,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in the Skyline/Tamien Station condominium development.
 - e. A \$480,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in the San Carlos Bowl townhome development.
 - f. A \$2,280,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in the Monte Vista at Cannery Square development.

- 2) Adoption of the following Appropriation Ordinance and Funding Sources Resolution amendments in the Multi-Source Housing Fund for 2007-2008:
 - a. Increase the estimate for Earned Revenue in the Multi-Source Housing Fund by \$5,280,000.
 - b. Increase the CalHOME (BEGIN) Program appropriation in the Multi-Source Housing Fund by \$5,280,000.

OUTCOME

The City of San José's grant revenue will be increased by \$5.28 million in FY 2007-08 and will be used to provide low-interest downpayment assistance loans to low- and moderate-income families.

BACKGROUND

From 2002 through 2006, the Housing Department was awarded \$4.5 million in BEGIN grants from the California Department of Housing and Community Development (HCD), and the Department continues to aggressively pursue funds made available through the recent passage of Proposition 1C in November 2006. BEGIN funds are available to cities and counties that have contributed to the reduction of housing costs through various regulatory relief measures, such as modification of density standards, flexible parking standards, and flexible project design guidelines.

HCD's most recent Notice of Funding Availability was published in April 2007. In response, the Housing Department submitted six applications and received conditional approvals for all six totaling \$5.28 million. The funds will be used to assist 176 homebuyers in the following new for-sale developments: (1) One East Julian; (2) Modern Ice; (3) Tierra Encantada; (4) Skyline/Tamien Station; (5) San Carlos Townhomes; and (6) Monte Vista at Cannery Square. HCD requires approval by the City Council to accept these new funds. Upon City Council approval, the Director of Housing will be authorized to execute five new BEGIN grant agreements with HCD.

ANALYSIS

The City will use the BEGIN funds to make deferred payment loans for low- and moderate-income persons or families purchasing homes in the new housing developments. All loans will be up to \$30,000 per household and accrue interest at a rate of 3% simple interest, deferred, for thirty years.

Under the BEGIN program, the City may retain program income from loan repayments and any interest earned on these funds. This income may be reused only for first-time homebuyer downpayment assistance, owner-occupied rehabilitation costs, homebuyer counseling, or self-help mortgage assistance for persons or families of low- or moderate-income.

NEW DEVELOPMENTS:

Modern Ice:

Modern Ice is a 200-unit townhome style condominium development located at the corner of Berryessa and Oakland Road in the 13th Street Redevelopment Strong Neighborhood Initiative (SNI) Redevelopment Area. The \$1.2 million in BEGIN funds will be used to assist 40 low- and moderate-income first-time homebuyers purchase an affordable unit within that development. The project is being developed by Taylor Woodrow Homes, Inc., which is currently selling units in Phase I and completing construction for Phase II units.

One East Julian:

One East Julian is a 43-unit single-family attached townhome style development located at the Northeast corner of East Julian and North First Street in the 13th Street SNI Area. The property was originally owned by the City's Redevelopment Agency and was transferred to Regis Homes of Northern California in May 2005 through a Council-approved Disposition and Development Agreement. The project will contain a mix of studio, one-, and two-bedroom units and is scheduled for completion in February 2008. The BEGIN funds will be combined with the downpayment assistance that will be offered to income-eligible homebuyers who purchase an affordable unit within this development.

Tierra Encantada:

Tierra Encantada is a 100% affordable, two- and three-bedroom, townhome style development adjacent to the Tierra Encantada family project located on the corner of Alum Rock Avenue and McCreery Lane in the Mayfair SNI Area. The townhomes and rental project were approved in 2002, and the rental development was completed in 2005. The second phase of the project consists of 12 for-sale townhomes scheduled for project completion in March 2008. The townhomes, developed by Community Housing Developers (CHD), will be targeted to low- and moderate-income families in the Mayfair SNI Area.

Skyline/Tamien Station:

The Tamien Station condominium development (a.k.a. Skyline) is the first phase of a two-tower 11-story high-rise development located at the corner of Lick and West Alma Avenue in the Washington SNI Area. The project is a market-rate project, with an affordable housing requirement for 24 of the units. The BEGIN funds will be combined with the downpayment assistance being made available to low- and moderate-income homebuyers through the City's Inclusionary Housing Program, and would enable lower-income households to purchase the affordable units. The developer is Barry Swenson Builder, working in partnership with Pacific Marketing Associates as exclusive real estate agent. The units are expected to be complete and ready for sale in April 2008.

San Carlos Townhomes:

The San Carlos Townhomes development is being jointly developed by ROEM Development Corporation and CORE Development Inc., and consists of 32-townhomes located on the corner of San Carlos Avenue and North Willard Avenue in the Burbank/Del Monte SNI Area. The City has provided a construction loan in the amount of \$4,766,000 to assist in the construction financing of 16 affordable townhomes to be purchased by low- and moderate-income first-time

homebuyers. The BEGIN funds will be combined with the soft second mortgages already committed to the affordable units, and therefore enable the developer to market the affordable units to lower-income households.

Monte Vista at Cannery Square:

The Monte Vista at Cannery Square condominium development is being developed by KB Home South Bay, Inc., and is located on the corner of Sunol Street and Auzerais Avenue in the Burbank/Del Monte SNI Area. The site is located adjacent to both a Valley Transportation Authority (VTA) future light rail station and the proposed extension of the Los Gatos Creek Trail. This project was approved as part of a larger condominium and townhome style project on the old Del Monte Cannery site. The full project is a mix of 383 residential units, of which 76 shall be sold to low- and moderate-income households through the City's Inclusionary Housing Program. The BEGIN funds will provide buyers with additional downpayment assistance and enable lower-income households to purchase the affordable units.

EVALUATION AND FOLLOW-UP

Upon approval of this memo, Housing Department staff will work with HCD staff to negotiate and accept the BEGIN grant award documents.

POLICY ALTERNATIVES

To arrive at this proposal, staff also considered the following option:

Alternative #1: Do not accept the BEGIN grant funds.

Pros: Each of the developers is already reaching out to prospective low- and moderate-income homebuyers, and some income-eligible buyers may be able to access sufficient mortgage financing without additional funding from the City.

Cons: Declining to accept the funds will disrupt the ongoing marketing efforts that are already targeting low- and moderate-income families plans to purchase units for which BEGIN funds have already been awarded.

Reason for Not Recommending: Despite the recent downturn, the City of San José remains one of most expensive housing markets in the nation. As a result, the Housing Department actively seeks grant funds from State HCD and other public agencies to assist first-time homebuyers purchase a home in San José. The BEGIN funds would be combined with existing mortgage programs to provide deeper subsidies to low- and moderate-income families enabling them to purchase a home in San José.

PUBLIC OUTREACH/INTEREST

This memo meets Criterion 1, and therefore will be posted to the City Council Agenda for February 26, 2008, via the City's website. In addition, the list of future BEGIN-assisted developments will be posted to the Housing Department's website.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 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)**
- Criterion 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)**

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Office.

FISCAL/POLICY ALIGNMENT

These actions are consistent with the City's Council-approved *Five-Year Housing Investment Plan for FY 2007/08- FY 2011/12*, which describes the process of applying for State funds through the BEGIN program in order to provide second mortgage assistance for first-time homebuyers in newly constructed developments.

COST SUMMARY/IMPLICATIONS

1. **AMOUNT OF RECOMMENDATION/COST OF PROJECT:** **\$5,280,000**
The \$5.28 million in downpayment assistance loans will be fully funded by State BEGIN funds.
2. **COST ELEMENTS:**

<u>USES:</u>	<u>AMOUNT</u>
Downpayment Assistance	176 Loans at approximately \$30,000 each
TOTAL	\$5,280,000
3. **SOURCE OF FUNDING:** Fund 448-the Multi-Source Housing Fund
4. **FISCAL IMPACT:** No ongoing fiscal impact

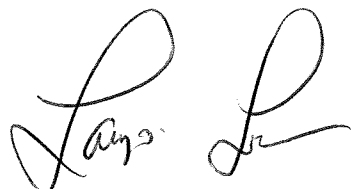
BUDGET REFERENCE

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	2007-2008 Adopted Operating Budget Page	Last Budget Action
448	3312	CalHOME (BEGIN) Program	\$1,290,000	\$5,280,000	XI- 64	

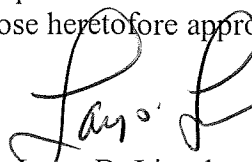
CEQA

Not a project.


LESLYE KRUTKO
Director of Housing


LARRY D. LISENBEE
Budget Director

I hereby certify that there will be available for appropriation in the Multi-Source Housing Fund in the fiscal year 2007-2008 monies in excess of those heretofore appropriated there from, said excess being at least \$5,280,000.


Larry D. Lisenbee
Budget Director

For questions, please contact Brandi Hoffman-Ooka at 408.535.8232.