



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: February 8, 2006

Approved

Date

02/09/06

COUNCIL DISTRICT: 6

SNI AREA: N/A

**SUBJECT: FUNDING COMMITMENTS FROM THE HOUSING TRUST FUND 2005.
SECOND ROUND NOTICE OF FUNDING AVAILABILITY (NOFA)**

RECOMMENDATION

It is recommended that the City Council:

1. Adopt a resolution approving a funding commitment for a loan of up to \$425,000 to InnVision the Way Home, or its designated affiliate entity, for the permanent financing of 8 units of the Hester Apartments, an 18-unit apartment building, located at 1759 Hester Avenue, to be made affordable to extremely low-income households with special needs.
2. Adopt a resolution approving a funding commitment for a loan of up to \$1,520,000 to the Unity Care Group, or its designated affiliate entity, for the acquisition and rehabilitation of a property located at 917 & 923 Northrup Street. This facility consists of 8 transitional and 26 permanent beds to be made affordable to youth aging out of foster care with extremely low-incomes.

BACKGROUND

On June 17, 2003, the City Council adopted an ordinance amending the Housing and Homeless Fund to establish the San Jose Housing Trust Fund. The fund helped the City to qualify for funds being made available from the State of California Housing and Community Development's Proposition 46 NOFA and in February 2004, the City was awarded \$1,500,000. The City matched the award in the amount of \$2,000,000, to be used for the development of housing units affordable to extremely low-income households with special needs. On June 6, 2005, the Housing Department issued a \$3.5 million Notice of Funding Availability (NOFA) to affordable housing developers and service providers requesting proposals for the development of permanent

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Notice of Funding Availability (NOFA)**

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housing units for extremely low-income households with special needs (homeless, those at-risk of homelessness, homeless youth, disabled households, domestic violence victims, and persons with HIV/AIDS).

In response to the NOFA, the Housing Department received two funding applications from nonprofit organizations that provide services to the target populations:

- InnVision the Way Home submitted an application for the permanent financing of the Hester Apartments, located at 1759 Hester Avenue. This proposal includes 8 one-bedroom units, which would be affordable to extremely low-income households (single mothers with children). There will be an unrestricted one-bedroom apartment for the resident manager. The City's \$425,000 funding commitment will be leveraged by a total of \$1,335,000 from funds already committed by Heritage Bank, U. S. Housing and Urban Development (HUD), and the Santa Clara County Housing Trust Fund.
- Unity Care, Inc. filed an application for the acquisition and rehabilitation of 12 two-bedroom units located at 917-923 Northrup Street. This project will provide 8 transitional and 26 permanent beds affordable to youth aging out of foster care with extremely low-incomes. There will be an unrestricted two-bedroom apartment to house a resident manager. The City's \$1,520,000 funding commitment will be leveraged by a total of \$480,000 already committed by the Housing Trust of Santa Clara County and the County's Office of Affordable Housing.

ANALYSIS

The two proposed projects were subjected to the criteria in the City's Housing Trust Fund NOFA, which specifically called for the development of affordable housing units for extremely low-income households with special needs. The Housing Department is recommending that both projects be given a funding commitment by the City Council in the amounts requested.

Descriptions of each of the two development proposals are contained in Attachment A to this Memorandum.

Pursuant to the Delegation of Authority approved by the City Council on June 25, 2003, the City Manager will approve the specific business terms of the loans.

Transfer of Affordability Restrictions

Five of the studio apartments in Hester Avenue will have affordability restrictions transferred from another project.

In July 1989, the Department of Housing made a loan to a developer for the acquisition and rehabilitation of "Casa Feliz", a 64-unit, single-room occupancy (SRO) facility with shared bathrooms, social service space, commercial kitchen and dining area. In 1997, the developer abandoned Casa Feliz through a bankruptcy court order and the City of San Jose became

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“creditor in possession” of the facility. The Department has extended an option to sell the property with restrictions to a partnership formed by First Community Housing and the John Stewart Company. The partnership will redevelop the site with a four-story, 59-unit, affordable SRO facility that includes private bathrooms and increased on-site parking. All 59 units will be restricted to households earning no more than 30% of Area Median Income (AMI.) Because the project will include five fewer units than are currently restricted, affordability restrictions must be relocated pursuant to Redevelopment Law.

State Redevelopment Law provides that affordability restrictions on rental housing recorded in conjunction with the expenditure of 20% Housing Funds may be removed only if they are transferred to another housing site. The affordability restrictions must be transferred to a project containing an equal number of affordable units at comparable levels of affordability and size at the new site as were required on the original site. State Redevelopment Law also provides that no additional 20% Housing Funds may be expended to develop the affordable units on the new site, though any loan repayment proceeds from the original loan may be used.

The SRO units at the Hester project are comparable in size and affordability to the units being replaced at Casa Feliz. Thus, 5 (five) of the studio apartments affordable to ELI households that are being financed with the loan from the San Jose Housing Trust Fund will have affordability restrictions that are transferred from the Casa Feliz Apartments.

PUBLIC OUTREACH

The NOFA was posted on the Housing Department's website on June 6, 2005. Notice of the posting was transmitted to the Housing Department's list of nonprofit and for-profit developers and other parties who have requested to be on the Department's developer-notification list. The NOFA was also transmitted to the members of the Santa Clara County Collaborative on Affordable Housing and Homeless Issues on June 6, 2005.

LEGAL ISSUES

55-year affordability restrictions restricting the occupancy of the projects to extremely low-income persons will be recorded on the properties for both projects.

COORDINATION

Preparation of this memorandum was coordinated with the Office of the City Attorney and the Department of Planning, Building and Code Enforcement.

COST IMPLICATIONS

Funds for the proposed total of \$1,945,000 in loan commitments are available in the Housing Trust Fund (#440) Fiscal-Year 2005-2006 Budget.

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CEQA

Site 1 – Hester Avenue Apartments: Not a Project

Site 2 – Northrup Street Youth Facility: Exempt, File No. PP06-018

BUDGET REFERENCE

Fund #	Appn #	Appn Name	Total Appn.	2005-2006 Adopted Operating Budget	Last Budget Action, Date Ord. No.
440	3214	<u>Prop 46 Project Expense</u>	\$3,500,000	Page XI-38	NA


LESLEYE KRUTKO
Director of Housing

Attachment

ATTACHMENT A

HESTER AVENUE PROPERTY

Council District: 6

SNI Area: N/A

Location: 1759 Hester Avenue

Project Description: The proposal includes 8 one-bedroom units, which would be affordable to extremely low-income households (single mothers with children.) There will be an unrestricted one-bedroom apartment for a resident manager. Amenities include a small laundry facility and play area for children. On-site parking is available for all tenants.

Project Type:	Service-enriched permanent housing
Group Served:	Extremely low-income households
Number of units:	8
Monthly Rent:	7 @ \$716 (based on 30% AMI adjusted for a family of 3) 1 Unrestricted Manager's Unit
Estimated Project Cost:	\$1,682,500
Cost per Unit:	\$93,472
City Subsidy (Loan):	\$425,000
City Subsidy per Bed (Loan):	\$53,125
Appraised Value:	\$1,550,000

Acquisition/Permanent Loan Business Terms

Loan Amount:	\$425,000
Term:	55 years
Rate:	0%
Security:	Recorded First Deed of Trust
Repayment:	50% Residual Receipts
Loan to Value	Less than 100%
Recourse:	City's Permanent Loan will be non-recourse
Subordination:	As allowed by State law
Affordability Restrictions:	55-year Affordability Restrictions for 7 units will be recorded and may be subordinated as permitted by State Law.



ATTACHMENT A – (Cont.)

NORTHRUP STREET PROPERTY

Council District: 6

SNI Area: N/A

Location: 917-923 Northrup Street

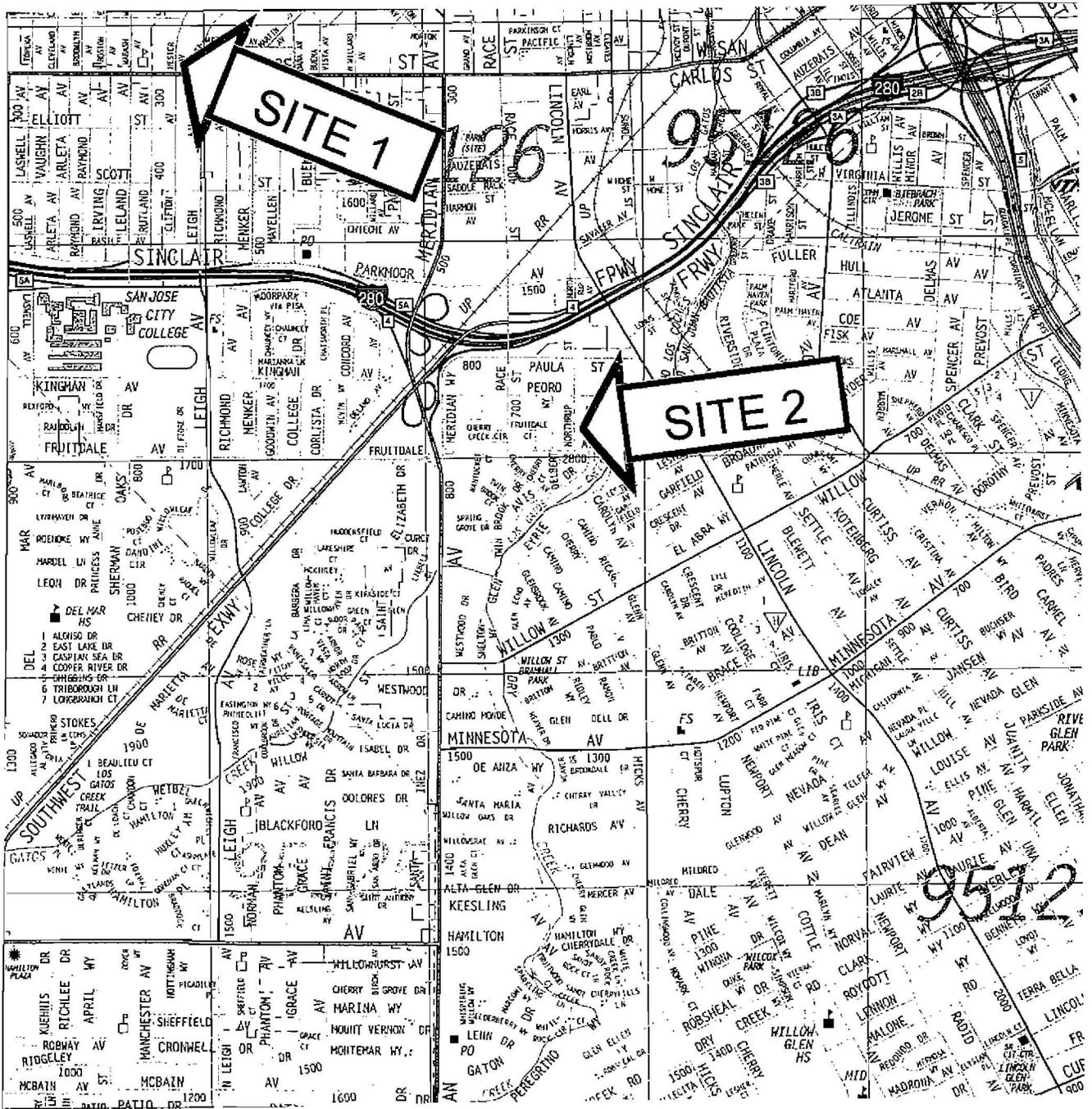
Project Description: The proposal includes 12 two-bedroom units, which would provide 8 transitional and 26 permanent units (beds) affordable to youth aging out of foster care with extremely low-incomes. There will be an unrestricted one-bedroom apartment to house a resident manager (live-in house monitor). Amenities include a small laundry facility and on-site parking is available for all tenants.

Project Type:	Service-enriched permanent housing
Group Served:	Extremely low-income youth aging out of foster care
Number of units:	26 permanent housing and 8 transitional housing beds
Monthly Rent:	26 @ \$126 8 @ \$126

Estimated Project Cost:	\$2,000,000
Cost per Unit (Bed):	\$58,824
City Subsidy (Loan):	\$1,520,000
City Subsidy per Bed (Loan):	\$44,706
Appraised Value:	\$1,900,000

Permanent Loan Business Terms

Loan Amount:	\$1,520,000
Term:	55 years
Rate:	0%
Security:	Recorded First Deed of Trust
Repayment:	50% Residual Receipts
Loan to Value	Less than 100%
Recourse:	City's Permanent Loan will be non-recourse
Subordination:	As allowed by State law
Affordability Restrictions:	55-year Affordability Restrictions for 11 units (total of 26 beds of permanent housing) will be recorded and may be subordinated as permitted by State Law.



Site 1 - Hester Avenue Apartments
Site 2 - Northrup Street Youth Facility