



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Leslye Corsiglia  
Larry D. Lisenbee

**SUBJECT:** SEE BELOW

**DATE:** February 13, 2004

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Approved

Date

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**COUNCIL DISTRICT:** 5

**SUBJECT: APPROVAL OF CONSTRUCTION AND PERMANENT FINANCING FOR  
LAS MARIPOSAS FOR-SALE AFFORDABLE HOUSING PROJECT**

## **RECOMMENDATION**

It is recommended that the City Council:

1. Adopt a resolution:
  - a. Approving a construction loan of up to \$4,181,662 and a grant of \$630,000 to Ketzal Community Development Corporation for the development of the 66-unit Las Mariposas for-sale, affordable housing project located at the northeast corner of Alum Rock Avenue and Jose Figueres Drive.
  - b. Approving up to \$2,350,000 in subordinate-position mortgage loans to qualified low- and moderate-income buyers of units in the project.
2. Adopt amendments to the annual Funding Sources Resolution and the annual Appropriation Ordinance in the Multi-Source Housing Fund (Fund 448) to:
  - a. Increase Revenue Estimate by \$630,000.
  - b. Establish a Las Mariposas Project appropriation to the Housing Department for \$630,000.

## **BACKGROUND**

On February 1, 2000, the City Council approved an acquisition/predevelopment loan of up to \$2,616,400 to the Mexican-American Community Services Agency, Inc. (MACSA), to finance the purchase of three out of the five parcels comprising the 2.89-acre site of the Las Mariposas for-sale affordable housing development, located at the northwest corner of Alum Rock Avenue and Jose Figueres Drive. Subsequently, MACSA created an affiliated development entity for the

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development, Ketzal Community Development Corporation (KETZAL), and transferred these three parcels to that new entity.

In December 2001, the Director of Housing increased the City's loan by \$100,000 under the Director's Delegation of Authority.

On October 8, 2002, the City Council and Redevelopment Agency Board jointly approved a Disposition and Development Agreement (DDA) with KETZAL for the transfer of the two remaining parcels – property that the City had acquired through eminent domain – in consideration of an additional loan amount of \$948,238. When the DDA was executed and the property was transferred to KETZAL in November 2002, the total principal value of the City's loan was \$3,664,638. In addition to this loan, the Redevelopment Agency committed in the DDA to grant \$630,000 to the project to fund certain on-site and off-site improvements.

**ANALYSIS**

The City's loan principal amount of \$3,664,638 will have accrued \$517,023.74 in interest by February 27, 2004, the anticipated date of the close of the construction loan. The interest will become part of the principal of the City's construction loan, which will total \$4,181,662.

Because the Housing Department will be monitoring the construction of the project, the Redevelopment Agency has agreed that the Department should administer the disbursement of the Agency's \$630,000 in grant funds. For this reason, the adopted Budget in Fund 448 (Multi-Source Housing Fund) for the current fiscal year must be amended to reflect this new source of revenue and appropriate that sum to the subject development.

Although the affordability restrictions on the units will restrict occupancy to households at or below moderate-income, the project sponsor will be actively trying to place lower-income households in as many units as possible. In order to make the units affordable to these lower-income households, loans subordinate to the buyer's first mortgage will be required. For this reason, the Department is recommending that up to \$2,350,000 of the City's construction loan be made available for this purpose, with the average City loan not to exceed \$50,000. The remainder of the City's construction loan, plus interest accrued during construction, will be repaid from the sales proceeds.

The Housing Department has also applied to the California Department of Housing and Community Development for funding from the Building Equity and Growth in Neighborhoods (BEGIN) program. This program, which is funded by Proposition 46 bond proceeds, is designed to provide secondary loans to low- and moderate-income homebuyers. The Department is applying for funding to assist buyers in the Las Mariposas and other for-sale projects now in pre-construction or construction phases. For the Las Mariposas development, second mortgages from the BEGIN program would reduce the required amount of City-funded homebuyer

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assistance (which would then be subordinate to the BEGIN loan) and/or reach households at lower incomes than could otherwise afford to buy in the project solely with a City loan.

Pursuant to the Delegation of Authority approved by the City Council on June 25, 2002, the City Manager will approve the specific business terms of the loans and the grant.

**PUBLIC OUTREACH**

A neighborhood meeting and noticed public hearings concerning the project were included in the PD Rezoning and PD Permit processes. Additionally, a public hearing notice was published twice in the San Jose Mercury-News prior to the City Council's consideration of the DDA.

**LEGAL IMPLICATIONS**

45-year affordability restrictions, limiting occupancy of the development to households at or below moderate-income, have been recorded on the title of the property. The affordability restrictions on the individual units will include a shared-appreciation provision.

**COORDINATION**

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

**COST IMPLICATIONS**

All but \$133,238 of City loan funds for the development have been disbursed from the 20% Low- and Moderate-Income Housing Fund. Funds for the remaining \$133,238 of the City loan – which will reimburse toxic remediation expenses – are available in the Housing Department's Fiscal Year 2003-04 Budget. Funds for the \$630,000 grant were booked by the Redevelopment Agency from the Implementation and Opportunity Sites line item in the Agency's Fiscal Year 2002-03 Budget.

**CEQA**

Negative Declaration (PDC 99-12-096)

LESLYE CORSIGLIA  
Director of Housing

LARRY D. LISENBEE  
Budget Director

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I hereby certify that there will be funds available for appropriation in the Multi-Source Housing Fund (Fund 448) in the fiscal year 2003-04 monies in excess of those heretofore appropriated therefrom, said excess being at least \$630,000.

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LARRY D. LISENBEE  
Budget Director

Attachment