



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: May 18, 2006

Approved

Date

5/22/06

COUNCIL DISTRICT: Citywide

SUBJECT: FUNDING COMMITMENTS FROM THE HOUSING DEPARTMENT'S HOME INVESTMENT PARTNERSHIP PROGRAM (HOME) 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 \$5,250,700 of HOME Investment Partnership (HOME) program funds to Charities Housing, a Community Housing Development Organization (CHDO), for the future development of a rental housing project affordable to extremely low- and very low-income households.
2. Adopt a resolution approving a funding commitment of up to \$2,000,000 to Neighborhood Housing Services Silicon Valley (NHSSV) in HOME funds for the expansion of its homebuyer program for low-income households and approving a funding commitment for a total of \$450,000 of HOME administrative funds for the next three years to NHSSV for operating support as a CHDO.

OUTCOME

The approval of this recommendation will allocate over \$7 million in HOME funds to two community-based organizations that have earned a designation as a Community Housing Development Organization (CHDO) from the U.S. Department of Housing and Urban Development (HUD). The organizations will work toward furthering the City's goals of providing new affordable housing opportunities to extremely low- and very low-income households as well as low-income households seeking homeownership opportunities.

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EXECUTIVE SUMMARY

In January 2006, the Housing Department made up to \$8.7 million of HOME funds available to developers and nonprofit agencies for affordable housing programs and projects. Ten applications were received, totaling over \$18 million. Staff recommends allocating HOME funds to the two applicants that scored highest against the NOFA's evaluation criteria. The awards include over \$5 million for Charities Housing to develop rental housing for very low- and extremely low-income households, \$2 million for NHSSV to expand its homebuyer program for low- and moderate-income households, and \$450,000 for NHSSV to provide operating support.

BACKGROUND

The City of San José is an entitlement jurisdiction that receives annual funding allocations from HUD for the HOME program. According to the Code of Federal Regulations, the purpose of the HOME program is to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing, with primary attention to rental housing for very low-income and low-income families. Jurisdictions may use HOME funds to carry out multi-year housing strategies through acquisition, rehabilitation, and new construction of housing, and tenant-based rental assistance (24 CFR Section 92). Based on the current formula allocations, San José receives approximately \$4.7 million in HOME funds annually.

HUD allows jurisdictions two years to obligate funds and an additional three years to expend these funds. In 2002, the City obligated \$6.61 million in HOME funds to the San Carlos Bowl senior affordable housing project, a 100-unit rental project for extremely low-income seniors. Because of delays resulting from the need to relocate a commercial tenant on the site, the developer has been unable to meet the original development timelines. As a result, Housing Department staff worked with HUD to deobligate these funds, making them available to alternative projects until July 30, 2006.

In an effort to obligate these funds expediently, the Housing Department created a Notice of Funding Availability (NOFA) for a broad range of projects in an amount of \$8.7 million. Specifically, the NOFA requested applications for the following types of projects and activities allowed under HOME program rules:

- Land acquisition for rental housing development or small infill for-sale development;
- Acquisition of existing rental housing;
- Acquisition and rehabilitation of existing rental property;
- Rehabilitation of existing rental housing without a transfer in ownership;
- New construction of Affordable Housing (or Adaptive Re-Use);
- Subordinate mortgages to low-income homebuyers;
- Other projects and activities allowed under the HOME Program regulations, consistent with the City's Consolidated Plan.

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The NOFA was made available to the public on January 3, 2006 with an initial submission deadline of January 31, 2006. Proposals received after the deadline would be considered on an ongoing basis, as funds remain available.

The Housing Department received ten responses by the January 31, 2006 deadline. The proposals fell into the following four general categories: homebuyer assistance (four responses), rehabilitation and reconstruction of existing affordable housing projects (four responses), new construction of affordable rental housing (one response), and administrative support to a nonprofit agency (one response). A summary of the applications is included in Attachment A.

The NOFA specified that the City would consider the following criteria when evaluating responses to the NOFA:

- **Project Readiness** – The ability of the applicant to obligate and spend funds within the deadlines required by HOME guidelines.
- **Feasibility** – Programs and activities proposed must be allowed under HOME guidelines.
- **Quality** – Extent to which proposals support the City's stated goals for the HOME program, including consideration of a Community Housing Development Organization (CHDO) designation.
- **Cost-effectiveness** – Extent to which costs for programs and activities are consistent with subsidy levels used in current Housing Department programs.
- **Past Experience** – Applicant's past experience with federally-funded programs as well as experience managing the affordable housing programs proposed under this NOFA.

An evaluation panel made up of four Housing Department managers – including the Homebuyer Program Manager and the Housing Finance Manager – was convened to evaluate each proposal based on the above criteria. After an initial review was held, each evaluator independently completed their evaluations. The evaluation team members unanimously supported the program activities proposed by Charities Housing and Neighborhood Housing Services of Silicon Valley.

ANALYSIS

The City Council has established priorities for the use of HOME funds in the Consolidated Plan. The FY 2005-06 Annual Action Plan, approved by HUD on July 21, 2005, identifies priorities for the use of HOME funds in the current year. These priorities include funding for the following uses: new construction of rental housing affordable to extremely low-income (ELI), very low-income (VLI) and low-income (LI) households; downpayment assistance for low-income households; and support to Community Housing Development Organizations (CHDOs) to carry out HOME-eligible activities. Under the federal HOME regulations, a minimum of 15% of HOME program funds allocated to the jurisdiction must be set aside for CHDOs to carry out HOME-eligible activities.

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Three of the proposals received in response to the NOFA scored highly against the evaluation criteria, which included readiness and feasibility, cost-effectiveness and past experience. Additionally, these three applicants support the Council-adopted priorities for the use of HOME funds as stated in the Consolidated Plan.

The following outlines the recommended awards:

- **Charities Housing** – The applicant requested \$5,250,700 for the future development of rental housing for extremely low- and very low-income households. This new rental housing will be developed in conjunction with the replacement of the San Jose Family Shelter, and will provide transitional housing opportunities to families moving from shelter to permanent housing. The relocation of the Family Shelter and the construction of housing that can transition families into permanent living situations has been a high priority of the City for several years and is being recommended as a result. The application scored highly against the NOFA evaluation criteria because it also furthers the City's goal of providing new affordable housing opportunities for households with the greatest need – extremely low- and very low-income households. Additionally, Charities Housing has a CHDO designation from HUD, which furthers the City's goal of providing support to CHDO organizations. *Recommendation: Fund the full request of \$5,250,700.*
- **Neighborhood Housing Services of Silicon Valley Homebuyer Program** – In 1995, the City of San Jose worked with the Neighborhood Reinvestment Corporation to establish a new Neighborhood Housing Services office in San Jose. Now named the Neighborhood Housing Services of Silicon Valley (NHSSV), the agency is a fully functioning Homeownership Center and a CalHFA-approved lender. This public-private partnership has worked diligently to increase homeownership opportunities for lower- and moderate-income households. NHSSV requested \$5,500,000 in HOME funds to expand its homebuyer loan program, providing homebuyer assistance to low-income households. The proposed project furthers the City's goal of providing downpayment assistance to low-income households. NHSSV has also recently received a CHDO designation from HUD (formal notification was made after the application was submitted), furthering the City's goal of supporting CHDO organizations. Prior to program implementation, the City will work with NHSSV to develop program parameters and create a sub-recipient agreement for approval by HUD. *Recommendation: Fund program with \$2,000,000.*
- **Neighborhood Housing Services of Silicon Valley (NHSSV) CHDO Operating** – NHSSV's proposal also requested \$150,000 annually for the next three years in operating support for its HomeOwnership Center, the City's only full service lending counseling center. HUD regulations allow funding operating support for CHDO organizations. The proposal supports the City's goals of providing services to low-income households seeking homeownership as well as supporting a CHDO organization. *Recommendation: Fund operating support in an amount of \$450,000.*

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The Housing Department made up to \$8.7 million available through the HOME NOFA. Responses to the funding notice totaled over \$18 million. The Housing Department evaluated respondents on the evaluation criteria and the City's funding priorities, as identified in the Consolidated Plan.

Four respondents proposed use of the HOME funds for the creation of homebuyer programs. The one applicant that is being recommended for funding, NHSSV, is a nonprofit agency and long-standing partner to the City in providing homebuyer assistance to San José residents. The three remaining respondents the proposed that use of HOME funds for homebuyer assistance were private, for-profit entities. NHSSV has received a CHDO designation from HUD, a targeted group by HUD for receipt of these funds.

One of the primary goals of the City's affordable housing program is to create new affordable housing units in an effort to reduce pressure on rental housing prices throughout the City. In this case, staff recommends supporting the one application that proposes creating new housing units, rather than investing in affordable housing previously subsidized. The remaining four applications were not awarded on this basis.

The recommendations will commit a total of \$7,700,700 of HOME funds from the NOFA. The Department continues to accept applications "over the counter" and will return to the City Council with any additional commitments that are recommended as a result of the NOFA process.

ALTERNATIVES

Not applicable.

PUBLIC OUTREACH

The HOME NOFA was posted on the Housing Department's website on January 2, 2005 and remains available to the general public via the internet to the present date. During the month of January, an email was sent to the Housing Department's extensive list of developers interested in development of affordable housing.

COORDINATION

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

FISCAL IMPACT

These projects will be funded by HOME funds (Fund 445). Funds will be obligated to Charities Housing and NHSSV by July 30, 2006. These funds must be spent in accordance with the timelines and guidelines included in the HOME regulations.

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CEQA

Not a project.


LESLYE KRUTKO
Director of Housing

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

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ATTACHMENT A – List of Applicants and Proposed Projects

Applicant	Project/ Program	CHDO Designation	HOME Funds Requested	HOME Funds Recommended
<i>Homebuyer Programs</i>				
Cedar Mortgage	Homebuyer Assistance	No	\$1,500,000	\$0
Metrocities Mortgage	Homebuyer Assistance	No	\$1,000,000	\$0
American Home Mortgage	Homebuyer Assistance	No	\$1,000,000	\$0
NHSSV	Homebuyer Assistance	Yes	\$5,500,000	\$2,000,000
<i>Multi-Family Rehabilitation and Reconstruction</i>				
EHC LifeBuilders	Reconstruction Project - 2112 Monterey Rd	No	\$605,000	\$0
SCC Housing Authority	Rehabilitation - Poco Way	No	\$300,000	\$0
SCC Housing Authority	Rehabilitation - Morrone Gardens	No	\$1,988,856	\$0
Charities Housing	Rehabilitation - Sunset Square	Yes	\$766,000	\$0
<i>New Construction</i>				
Charities Housing/Core/Family Supportive Housing	New Construction of 90 ELI/VLI units	Yes	\$5,250,700	\$5,250,700
<i>CHDO Administrative Assistance</i>				
NHSSV	Admin Support	Yes	\$450,000	\$450,000
TOTAL APPLICATIONS AND RECOMMENDATIONS			\$18,360,556	\$7,700,700