



COUNCIL AGENDA: 6/17/08  
ITEM: 2.13

## Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Leslye Krutko  
Director of Housing

**SUBJECT:** SEE BELOW

**DATE:** May 27, 2008

Approved

Date

5-29-08

**COUNCIL DISTRICT:** 5  
**SNI AREA:** Mayfair

**SUBJECT: APPROVAL TO ROLL \$400,000 OF THE CITY'S ACQUISITION LOAN INTO SECOND MORTGAGES AND TO COMMIT ANOTHER \$200,000 TO SECOND MORTGAGES FOR HOMEBUYERS AT THE TIERRA ENCANTADA TOWNHOME DEVELOPMENT**

### RECOMMENDATION

It is recommended that the City Council adopt a resolution approving:

1. A rollover of the existing \$400,000 City acquisition loan made to Tierra Encantada Development, LLC, into second mortgages to assist eight moderate-income homebuyers with second mortgages of up to \$50,000 each; and
2. An increase of up to \$200,000 in additional funding for this project in order to assist up to four additional moderate-income homebuyers with a second mortgage of up to \$50,000 each.

### OUTCOME

Approval of the proposed second mortgage financing will support homeownership opportunities for up to 12 moderate-income families at the Tierra Encantada Townhomes project in San José.

### BACKGROUND

On June 25, 2002, the City Council approved an acquisition and predevelopment loan of up to \$4,000,000 to Community Housing Developers ("CHD") for the development of 93 restricted affordable rental units in the Tierra Encantada Apartments as well as the acquisition of the adjacent parcel intended for the development of 12 affordable for-sale units. The Tierra Encantada for-sale development is a 12-unit townhome style development with three- and four-bedroom units. The units are priced at \$490,000 and \$535,000 respectively.

Since the final map for the rental project was not recorded at the closing of that project's financing, the City recorded a \$4,000,000 deed of trust that reflected both the \$3,600,000 City loan for the rental project and the \$400,000 acquisition loan for the for-sale parcel. Upon completion of the rental project in November 2005, staff released and reconveyed the for-sale parcel from the \$4,000,000 deed of trust, and recorded a separate deed for \$400,000. The City also recorded a separate permanent deed of trust for \$3,600,000 to secure the rental project.

### ANALYSIS

The developer, CHD, is requesting downpayment assistance to assist up to 12 households at Tierra Encantada townhomes. The Housing Department is recommending approval of this request in order to assist the nonprofit developer with the sale of the recently completed units and to increase affordability to prospective homebuyers. In consideration for City funding, each of the assisted units would have a recorded affordability restriction.

If approved, the \$400,000 that the City has provided to CHD in form of a land acquisition loan will be converted to \$50,000 second mortgages for eight of the 12 units. An additional \$200,000 will be provided in the form of second mortgages for the remaining four units. In addition to the proposed subsidy, the State of California has awarded this project \$360,000 in State BEGIN Funds to be used to provide \$30,000 second mortgages to the low- or moderate-income homebuyers. The total possible second mortgage package for a qualifying homebuyer would be \$80,000.

CHD has conducted a considerable amount of local outreach to the surrounding community through community groups and neighborhood meetings, and will be marketing the units through Craig's List.

### EVALUATION AND FOLLOW-UP

No additional follow-up is necessary.

### POLICY ALTERNATIVES

The Department considered the following option:

#### *Alternative #1: Deny the funding for second mortgage assistance.*

- Pros:** Allows the City to use the funds to finance other projects targeted to low-, very low-, and extremely low-income households.
- Cons:** Approving the assistance encourages homebuyers to purchase a home in the Mayfair SNI Area, thereby magnifying the effect of other neighborhood revitalization efforts in the City.
- Reason for not recommending:** Tierra Encantada provides a good opportunity for homeownership to qualified low- and moderate-income residents of San José.

After considering this alternative, Housing Department staff opted to seek the City Council's approval for this funding because it will enable San José families the opportunity for homeownership.

### **PUBLIC OUTREACH**

Although this notice does not meet any of the criteria below, this memo will be posted to the City Council Agenda for the June 10, 2008 meeting on the City's website. If approved, the Housing Department also will work with CHD to market the City funds to prospective homebuyers at the Tierra Encantada development.

- **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)**
- **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)**

### **COORDINATION**

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

### **FISCAL/POLICY ALIGNMENT**

This expenditure is consistent with the Department's goals to fund homeownership projects in the most recent Council-adopted *Five-Year Housing Investment Plan for FY 2006/2007 through FY 2011/2012*.

### **COST SUMMARY/IMPLICATIONS**

1. **COST ELEMENTS OF CITY LOAN AMOUNT:** **Not to exceed \$600,000**  
Uses  
Downpayment Assistance **Twelve Loans at \$50,000 ea.**  
**TOTAL: \$600,000**
2. **SOURCE OF FUNDING:** Fund 443—Low- and Moderate-Income Housing Fund
3. **FISCAL IMPACT:** No ongoing fiscal impact.

HONORABLE MAYOR AND CITY COUNCIL

May 27, 2008

**Subject: Approval of Second Mortgage funding for Homebuyers at Tierra Encantada Townhomes**

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**CEQA**

Negative Declaration (PDC-02-029).

  
LESLYE KRUTKO  
Director of Housing

For questions, please contact Leslye Krutko, Director of Housing at 408-535-3851.