



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: June 2, 2008

6-5-08

COUNCIL DISTRICT: City-wide
SNI AREA: City-wide

SUBJECT: APPROVAL OF A HOME FUNDING COMMITMENT TO CHARITIES HOUSING FOR FUTURE DEVELOPMENT COSTS OF AN AFFORDABLE RENTAL HOUSING PROJECT AND FOR OPERATING SUPPORT FOR A COMMUNITY HOUSING DEVELOPMENT ORGANIZATION

RECOMMENDATION

It is recommended that the City Council adopt a Resolution:

1. Approving a funding commitment for a loan of up to \$1,800,000 of HOME Investment Partnership (HOME) program funds to Charities Housing Development Corporation ("Charities Housing"), a Community Housing Development Organization ("CHDO"), for the future development of a rental housing project affordable to lower-income households; and
2. Approving \$75,000 in HOME funds to subsidize the administrative costs of operating a CHDO.

OUTCOME

Approval of this recommendation will allocate up to \$1,875,000 in HOME funds to Charities Housing, a community-based organization that has earned a designation as a CHDO from the U.S. Department of Housing and Urban Development (HUD). Using these funds, Charities Housing will work towards furthering the City's goals of providing new affordable housing opportunities to extremely low- (ELI) and very low-income (VLI) households.

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 Code of 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 the primary attention to rental housing for ELI and VLI families. Jurisdictions may use HOME funds to carry out multi-year housing strategies through the acquisition, rehabilitation, and new construction of housing, and the provision of tenant-based rental assistance (24 C.F.R. Section 92). Based on the current formula allocations, San José receives approximately \$4.3 million in HOME funds annually. A minimum of 15% of all HOME funds must be used by a CHDO to develop affordable housing.

The City Council established priorities for the use of HOME funds in the Consolidated Plan. The FY 2007-08 Annual Action Plan, approved by the City Council on May 9, 2008, 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 lower-income households; downpayment assistance for lower-income households; and support to CHDOs to carry out HOME-eligible activities. Under the federal HOME regulations, a minimum of 15% of the HOME program funds allocated to the jurisdiction must be set aside for CHDOs to carry out HOME-eligible activities. Charities Housing was recertified as a CHDO for the City of San José's HOME program in April 2008.

ANALYSIS

Any project-specific award of HOME funds is possible only after completion of the federally-required environmental review (NEPA). However, the City can reserve HOME funds for a CHDO provided that the CHDO uses the funds to develop affordable housing within five years from the date the allocation was received by the City. In addition, up to 5% of the federal HOME allocation can be used to provide operating support to CHDOs.

Charities Housing is the City's only active CHDO and is currently examining multiple sites for potential development feasibility. Therefore, a commitment of funds to this nonprofit organization furthers the City's goal of strengthening and supporting the City's CHDO. The award of \$1.875 million would also allow the City to meet its immediate commitment deadline of \$1.875 million in HOME funds by July 2008.

EVALUATION AND FOLLOW-UP

If the City Council approves this request, Department of Housing staff will enter into a grant contract with Charities Housing for up to \$75,000 in administrative funds. In addition, the Department of Housing will bring forward a future recommendation to the City Council for authorization to use the remaining \$1.8 million in CHDO funds for a specific new construction project upon completion of a NEPA.

POLICY ALTERNATIVES

To arrive at this proposal, staff considered the following options:

Alternative #1: *Deny the requested funding commitments.*

Pros: None known.

Cons: There is a federal requirement that HOME funds be committed to a project within two years from the year the funds were allocated to the City. There are no other projects that would qualify for HOME funding prior to the upcoming commitment deadline of July 31, 2008.

Reason for not recommending: Charities Housing is the City's only active CHDO and HOME Program rules allow the City to authorize commitments to CHDOs in order to meet the statutory commitment deadline for the grant. If the commitment deadline is not met, uncommitted funds must be returned to the federal government.

PUBLIC OUTREACH/INTEREST

- √ **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)**

This item meets Criterion 1: Requires Council action on the use of public funds equal to \$1 million or greater. This Memorandum will be posted to the City's website for the June 24, 2008, Council Agenda.

COORDINATION

This report has been coordinated with the Office of the City Attorney.

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FISCAL/POLICY ALIGNMENT

This expenditure is consistent with the Housing Department's 2008-2009 *Consolidated Plan Annual Update*, which describes the City's intended use of HOME funds for both the development of new construction affordable rental housing and capacity building support to CHDOs.

COST SUMMARY/IMPLICATIONS

- 1. **COST OF PROJECT:** **\$1,800,000**
- COST OF PROGRAM OPERATIONS:** **\$75,000**

CONSTRUCTION USES

AMOUNT

N/A N/A

- 2. **COST ELEMENTS OF CITY LOAN AMOUNT:** N/A

USES

AMOUNT

CHDO RESERVE/FUTURE DEVELOPMENT \$1,800,000

OPERATING SUPPORT \$75,000

TOTAL **\$1,875,000**

- 3. **SOURCE OF FUNDING:** Fund 445—HOME Investment Partnership Program 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 (Date, Ord. No.)
445	0070	Loans and Grants	\$ 10,273,200	\$ 1,875,000	XI-39	3/18/2008, 28274

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CEQA

CEQA: Not a project


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Director of Housing

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

