



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: July 14, 2008

Approved

Date

7-18-08

COUNCIL DISTRICT: N/A

SNI AREA: N/A

SUBJECT: FUNDING COMMITMENT FOR "THE COMMONS" AFFORDABLE HOUSING PROJECT IN THE CITY OF SANTA CLARA

RECOMMENDATION

It is recommended that the City Council adopt a resolution:

1. Approving a funding commitment of up to \$1,800,000 in Federal HOME Funds for Bill Wilson Center, or its designee, for the rehabilitation of The Commons, a 28-unit affordable rental housing project targeted to San Jose and Santa Clara youth aging out of foster care or otherwise at risk of homelessness located at 3661 Peacock Court in the City of Santa Clara, to be made available to extremely low-income (ELI), very low-income (VLI) and low-income (LI) households; and
2. Approving for this project an exception to City policy that the loan-to-value ratio in affordable housing projects should not exceed 100%.

OUTCOME

The City Council's approval of the recommended actions will result in housing for 32 youth from San Jose and Santa Clara who are aging out of foster care or are otherwise at risk of homelessness.

BACKGROUND

On November 19, 2007, Bill Wilson Center submitted a request for \$1,700,000 to partially defray the cost to rehabilitate a 28-unit apartment complex that will house 32 youth aging out of foster care or otherwise at risk of homelessness, located at 3661 Peacock Court in Santa Clara. The property was purchased in 2007 with financing from the City of Santa Clara, and consists of

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a mix of one-, two- and three-bedroom units. The three-building apartment complex was constructed in 1964 and is in poor condition.

The proposed scope of rehabilitation work is quite extensive and includes replacing the framing in several external walls because of severe termite damage, replacement of all cabinets and appliances in kitchens and bathrooms, complete replacement of the electrical system, complete replacement of all interior sheetrock, and substantial plumbing repairs/replacement. Additionally, the sponsor proposes to modify the buildings as follows:

- Convert 2 two-bedroom units to common space (computer and laundry rooms, a property management office, and counseling/program space).
- Divide 2 three-bedroom units into a two-bedroom unit and a studio unit in each case.
- Add second bathrooms to 10 units so that unrelated individuals do not have to share bathrooms.
- Construct a new 1,120-square-foot community room (with a complete kitchen for cooking classes) as well as new utility/storage space.

Green building features to be added to the project include a cool roof, solar hot-water heating and double-glazed windows throughout.

ANALYSIS

The project design contemplates housing 29 unrelated individuals and three single-parent households who are part of the target population of youth aging out of foster care or otherwise at risk of homelessness. Bill Wilson Center will provide life-skills training and other supportive services to enable these youth to succeed in life. The age range of the targeted population is 18 to 25 years of age. Each person in the target population will be charged 30% of his/her actual income, up to the maximum SRO rent allowed for the ELI income category.

Staff review of the project plans and scope of rehabilitation work resulted in an additional \$100,000 (or a total of \$1,800,000 in funding from San Jose) for the following upgrades: replace baseboard heaters with heat pumps that provide both heating and cooling capability with far greater energy efficiency; and add ceiling exhaust fans to provide air circulation in rooms where the outside noise levels require windows to remain closed.

Six of the 28 rent-restricted units will be occupied by volunteer adult "mentors" who are professionals already working in local State-licensed youth residential programs. The mentors will be required to volunteer their time in the evenings and weekends. By providing informal counseling, friendship and positive reinforcement, the mentors will serve as constructive role models to help the residents reach their work and life goals. The mentors' income and rents will be restricted at 60% AMI. Since the nonprofit service providers who employ the mentors are unable to pay high salaries, the rent-restricted units help compensate the mentors for their efforts. This helps the service providers attract and retain staff in this high-cost area.

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The mix of unit sizes by affordability level – expressed in terms of percentages of Area Median Income (AMI) – is as follows:

	Youth – Studio	Youth – 1-Bdrm	Youth – 2-Bdrm	Youth – 3-Bdrm	Mentors – 1-Bdrm	Mentors/Mgr – 2-Bdrm	TOTALS
ELI @ 30% of AMI	2	7	1				10
VLI @ 50% of AMI			9	2			11
LI @ 60% of AMI					3	3	6
Unrestricted (Mgr)						1	1
TOTALS	2	7	10	2	3	4	28

Staff is recommending that the City's funding be in the form of a performance-based loan, secured by a deed of trust (DOT), under which no interest is charged and there is no repayment required if the property is operated in compliance with the City's affordability restriction for its 55-year term.

The total project cost is \$8,966,200. In addition to the City's funding, the project will receive financing from the California Department of Housing and Community Development (Proposition 1C Homeless Youth Supportive Housing Fund), the cities of Santa Clara and Sunnyvale, the Housing Trust Fund of Santa Clara County, the Corporation for Supportive Housing, and fundraising proceeds. The DOT securing the City's performance-based loan will be fifth lien position behind the State and three separate DOTs securing the City of Santa Clara's funding.

The combined loan-to-value ratio (LTV) for the City's conditional grant and senior funders is estimated to be 224%, which exceeds the standard maximum LTV of 100% pursuant to City policy. This ratio is understandably high for this property serving ELI residents because the income-based value of the building is far lower than would be the case were the building charging market rents. Realistically, the likelihood of the City wanting to recover its assets in case of foreclosure is minimal for a project serving this population; therefore, the importance of the LTV is lessened for this project.

The U.S. Department of Housing and Urban Development (HUD) requires a minimum of 15 years of affordability for HOME-funded projects undergoing substantial rehabilitation, which is the case in this instance. In order to ensure far longer affordability, staff is recommending that the City add 40 years to the affordability restriction for this project, for a total affordability term of 55 years.

Eleven of the 28 units are currently occupied. Seven of those households were living on the site at the time the sponsor acquired the property and qualify for relocation benefits under State and federal law. The Santa Clara City Council is the lead agency responsible for the relocation obligation under law and formally approved the relocation plan on June 17, 2008. The project budget includes a \$375,000 line item to fund those benefits.

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Expenditure of Housing Funds Outside of San José

In general, affordable housing funds are restricted to the jurisdiction of origin. For HOME and some other federal programs, however, one jurisdiction's funds may be expended in a neighboring jurisdiction if the project will serve a special needs population from both jurisdictions and thereby benefit the residents of both jurisdictions. Statistics provided by the Santa Clara County Social Services Agency show that of the 16-to-18 year-old youth in foster care as of May 6, 2008, 151 were residing in San José and 17 in Santa Clara (which were, respectively, 68% and 8% of the Countywide total). Additionally, the 2007 Homeless Census and Surveys for San José and Santa Clara County document that 85% of homeless youth in the County were found in San Jose and the likelihood is that a good proportion of the remaining homeless youth were in Santa Clara because of nonprofit-provided youth services outlets located in that city.

Environmental Review

For purposes of environmental review, the City of Santa Clara is acting as the Lead Agency. Because the project is being financed with federal funds, its environmental impacts must be evaluated under the National Environmental Policy Act (NEPA) as well as CEQA. Because the buildings exist and the new construction is minor, the project is Exempt under CEQA. NEPA has a similar exemption for existing buildings, except in cases like this one where the rehabilitation is substantial. Thus, this project must have a Finding of No Significant Impact (FONSI) – analogous to a Negative Declaration under CEQA – before HUD will release funds. The necessary studies have been completed and the scope of work includes measures to mitigate noise (the site backs up to Lawrence Expressway) and existing lead-based paint and asbestos found in the buildings. The required newspaper notice of the FONSI was published on June 17, 2008, and the 15-day comment period expired on July 2, 2008. Documentation of the NEPA review and FONSI are on file in the Department of Planning, Building and Code Enforcement.

EVALUATION AND FOLLOW-UP

The City Council will later be able to track the project's construction status through the Housing Department's quarterly construction reporting.

POLICY ALTERNATIVES

Alternative #1: *The City could deny Wilson Center's requested funding commitment.*

Pros: The funding not committed to this project could be spent on other affordable housing projects located within San Jose.

Cons: The project's feasibility would be seriously jeopardized if the City of San Jose does not contribute 29% of the project's rehabilitation costs.

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Reason for not recommending: Solving homelessness requires creative approaches to providing this special population with housing plus supportive services, and this project is proposing an innovative service model to maximize the chances that its residents will not become homeless.

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 regarding expenditures of public funds exceeding \$1 million. Therefore, this Council report will be posted to the City's website for the August 5, 2008 Council Agenda.

COORDINATION

Preparation of this report was coordinated with the City Attorney's Office and the City Manager's Budget Office.

FISCAL/POLICY ALIGNMENT

This expenditure is consistent with the City's *2007-2012 Five-Year Housing Investment Plan*, adopted by the City Council in June 2007, and with the City's *10-Year Strategy to End Homelessness*, adopted by the City Council in September 2003.

COST SUMMARY/IMPLICATIONS

- | | | |
|----|--|-------------|
| 1. | AMOUNT OF RECOMMENDATION: | \$1,800,000 |
| 2. | COST ELEMENTS OF AGREEMENTS:
Rehabilitation Hard and Soft Costs | \$1,800,000 |
| 3. | SOURCE OF FUNDING: HOME Investment Partnership Program Fund (Fund 445) | |

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4. FISCAL IMPACT:

No ongoing fiscal impact.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. for Contracts	2008-2009 Proposed Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
445	0070	Loans and Grants	\$4,900,000	\$1,800,000	XI-44*	N/A

* 2008-2009 Operating Budget was adopted by City Council on June 24, 2008.

CEQA

CEQA: Exempt (City of Santa Clara)

NEPA: Finding of No Significant Impact (FONSI) (Cities of Santa Clara and San Jose)



LESLYE KRUTKO
Director of Housing

Attachment 1 – Location Map

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

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Attachment

LOCATION MAP

"The Commons"
3661 Peacock Court, Santa Clara



