



COUNCIL AGENDA: 05-12-09
ITEM: 4.3

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko
Director of Housing

SUBJECT: SEE BELOW

DATE: April 15, 2009

Approved

Date

4-21-09

COUNCIL DISTRICT: Citywide
SNI Area: All

SUBJECT: POLICY CHANGES TO THE HOUSING REHABILITATION PROGRAM

RECOMMENDATION

It is recommended that the City Council adopt a resolution making findings that the use of Low- and Moderate-Income Housing Funds to provide rehabilitation loans and grants outside a redevelopment project area benefits the Agency's redevelopment project areas and accepting the proposed changes to the Housing Rehabilitation Program as follows:

1. Changes to the existing Housing Rehabilitation Program to encourage greater recapture of funds and focus resources on households in the lowest income categories;
2. Creation of new loan and grant services, including:
 - a. Direct Minor Repair Services for urgent home repairs,
 - b. Disabled Access Grants to improve home access for clients with disabilities,
 - c. Green Incentive Grants to provide additional funds for clients that choose to install additional green features that are not mandated by the Housing Department.
3. Modifications to the Mobilehome Rehabilitation Program that lower the income eligibility levels for recipients of mobilehome grants, increase individual grant amounts, limit repairs to essential health and safety issues, and place a funding limit on the overall amount of Program funds to be spent on mobilehome repair each year.

OUTCOME

Approval of the changes to Housing Rehabilitation Program will direct resources to homeowners with the greatest financial need. The changes will ensure the long-term viability of the Program by increasing incentives for participants to use loans over grants – thereby improving the recapture and reuse of Program resources. The creation of new loan and grant products will improve service to customers and help meet the City's Green Vision Goals. The proposed modifications to the Mobilehome Rehabilitation Program will improve the effectiveness of the Program and limit total mobilehome expenditures to ensure that funds are available for all eligible Program activities.

BACKGROUND

The Housing Rehabilitation Program has been providing rehabilitation services to low-income households in San Jose for over 30 years. The objective of the Housing Rehabilitation Program is to provide both financial resources as well as technical assistance to San Jose's lower-income residents seeking to maintain and/or improve the condition of their properties. Services provided by the Housing Rehabilitation Program fulfill one of the Department's core service objectives of preserving the City's existing affordable housing supply.

Currently, assistance is being provided through loans or grants. The Rehabilitation Program staff assists homeowners through the rehabilitation process by explaining the loan process, developing the scope of work for each project and ensuring that contractors selected by the homeowner successfully complete the improvements. Since 1989, the City's Program has assisted over 3,000 single-family and mobilehome households with their rehabilitation needs.

Although the core services have remained constant over the years, the Housing Rehabilitation Program has been modified in response to economic factors and neighborhood initiatives. In June 2001, several policy changes were made in an effort to respond to the City's newly created Strong Neighborhoods Initiative (SNI). In 2004, the Program was again modified in an effort to adjust to declining revenue.

The primary source of funding for the Housing Department programs is the 20% Low and Moderate Housing Fund (20% Funds). In addition to 20% Funds, the Housing Rehabilitation Program is funded by the Community Development Block Grant (CDBG) Program, State CalHome Program, and program income derived from loan repayments.

ANALYSIS

Changes to the Housing Rehabilitation Program Loans and Grants

Rehabilitation Program funding can vary from year to year depending on the availability of funding from various sources. In the last couple of years, the amount of program income from

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loan repayments has been reduced significantly, largely due to the number of grants that were made in past years. Additionally, with a reduction in CDBG funding—a nearly 25% drop in the past ten years—and added competition for these limited funds, the amount of CDBG funds available for this program has dropped substantially. Other funds, such as those from State bond measures, are competitively awarded and cannot be relied on as consistent funding sources.

Accordingly, the Housing Department is recommending changes to its grant and loan products to increase the number of loans it authorizes and reduce the number of grants. The loan repayments will be used to create a revolving loan fund to provide a self-sustaining revenue source for the Program. The recommended changes to the Housing Rehabilitation Program will enhance its long-term financial viability, improve efficiency, and ensure that the resources are being targeted to the San Jose residents most in need. The Program is administered consistent with the Housing Department's housing rehabilitation handbook, which will be updated to reflect the approved changes.

Currently, low-income homeowners (i.e., those with household incomes at or below 80% of the Area Median Income, which ranges from \$59,400 to \$84,900 for households of 1-4 family members) may qualify for grants of up to \$15,000 and loans up to \$100,000 Citywide. Homeowner grants are intended to address home repairs requiring minimal cost and coordination. However, we have found that homeowners frequently opt to accept the grant and make a few repairs rather than complete all recommended health and safety repairs that would require them to instead accept a loan. The overall impact on the program is that a disproportionate amount of funds are utilized for grants rather than loans.

Even with dropping home values, there is generally enough capacity for owners to leverage the equity in their homes to accommodate a Housing Rehabilitation loan. By raising loan limits Citywide and reducing grant award amounts, the Department will encourage the use of loans by applicants with the capacity to repay the assistance. The loan repayments will be applied to a revolving loan fund that can then be reused for future housing rehabilitation needs. These specific changes to the existing loan and grant projects are summarized below and presented in more detail in **Attachment 1**.

Changes to Existing Grant Products

In order to accomplish the goal of recapturing more Program resources, the Housing Department is proposing to reduce individual maximum homeowner grants from \$15,000 to \$5,000 for applicants in non-SNI areas. Applicants within SNI areas will be eligible for different grant amounts (ranging from \$5,000 to \$15,000) depending on their income levels. The lowest income clients will be eligible for the largest grants. The changes help ensure that the City Council policy objectives of spending 75% of rehabilitation funds in the SNI areas and serving lower-income residents, will continue to be met.

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Changes to Existing Loan Products

Staff is proposing to raise the limit for its *Zero Interest Loan Product* (Z-loan) from \$15,000 to \$40,000. In 1999, the Z-loan was implemented as a one-year pilot program in response to a City Auditor recommendation to substitute homeowner grants with interest-free loans. The purpose of the pilot was to determine if a loan only program would return revenue to the City while remaining attractive to applicants.

In June of 2001, the City Council approved staff's recommendation to reinstate single-family grants after concluding that grants were a necessary funding mechanism that should not be discontinued altogether. The Department continued to offer Z-loans to augment its loan products. With less stringent underwriting requirements than the larger Housing Preservation Loans, Z-loans are an effective tool in meeting the Program's overall goals.

The Department will continue to provide Z-loans at \$15,000 with the same eligibility and underwriting criteria. The proposed new \$40,000 limit will provide a mid-level loan product to bridge the gap between the very basic \$15,000 loans and the larger, more comprehensive, Housing Preservation loans. The proposed increase will require additional underwriting requirements for loans over \$15,000, including a maximum combined loan-to-value ratio of 90% and a review of applicant credit history.

The Housing Rehabilitation Program currently offers *Housing Preservation Loans* up to \$100,000 to low-income households Citywide. The Housing Preservation loans are designed to address rehabilitation needs for homes that need extensive repair. The Housing Preservation loans are offered at no interest to households within the City's nineteen SNI areas and at 3% interest to households outside of the SNI areas. Depending on the applicant's income and household expenses, loan payments are often deferred until the house is sold or refinanced.

The current loan limit of \$100,000 was established in May of 2000. As a result of rising costs associated with construction, this limit is sometimes insufficient to address the needs of owners whose home require comprehensive rehabilitation. Staff is proposing to increase the maximum HPP loan from \$100,000 to \$150,000. This is consistent with the level of authority delegated by the City Council to the Director of Housing.

Limitations on Combining Grants and Loans

In recent years, applicants could qualify for multiple rehabilitation grants funded with 20% Housing Funds for different purposes. This multi-layered grant process was staff intensive and could be confusing to the applicant. In order to simplify the process, applicants will be offered only one grant from this funding source. The Housing Department also administers grant funds provided by external agencies for specific purposes. Applicants may combine these funds with a grant from 20% Housing Funds, provided that the total grant amount does not exceed \$25,000. If funds in excess of \$25,000 are needed to complete the rehabilitation work, applicants may apply for the additional funds in the form of a loan. These Program changes will provide an incentive for service recipients to complete the full scope of the rehabilitation work required and

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reduce grant dollars provided from the 20% Housing Fund in order to ensure the long-term viability of the Housing Rehabilitation Program.

Creation of New Housing Products

The Housing Department is recommending the implementation of three new housing rehabilitation products. The new products are relatively small grants designed to meet specific needs or to be used in conjunction with larger loans. These include the Minor Repair Grant, Disabled Access Grant, and Green Incentive Grant.

Minor Repair Grant

For many years, Economic and Social Opportunities (ESO) of Santa Clara County provided much needed minor repair services to local residents. With the closure of ESO in April of 2007, the City's Housing Department stepped in to ensure continued delivery of some of these services to San Jose residents, including small emergency and non-critical repairs as well as accessibility improvements. Although other local nonprofit agencies have recently expanded their programs to incorporate many of the services previously provided by ESO, there is still a gap between the need and the currently available services. Formal adoption of the Minor Repair Grant is intended to fill that gap.

The *Minor Repair Grant Program* maintains direct contracts with a number of qualified repair contractors. These contracts allow staff to deploy contractors immediately to eligible households with urgent repair needs such as furnace replacements in the winter. As a result, the time required to address vital health and safety issues has been greatly reduced.

Disabled Access Grant

This is a new grant created to ensure that low-income seniors and special needs clients continue to receive adequate funding to address needs such as ramps and grab bars. Until its closure in April 2007, ESO provided these services. Although accessibility improvements have been provided by the Housing Rehabilitation Program as part of its other loans and grants, the recommended reduction of those grant amounts to \$5,000 in many cases, may necessitate additional funds specifically for disability access improvements. A *Disabled Access Grant* of \$10,000 is recommended to ensure that the needs of this population continue to be met.

Green Incentive Grant

Staff is proposing to add a *Green Incentive Grant* to augment other Rehabilitation Program grants and loans. The proposed grant amount will depend on the level of green improvements (i.e., the greener the project, the higher level of funding). These grants will have a cap of \$3,500 and will be in addition to other approved grant funding. Eligible improvements will consist of insulating homes and replacing aging, inefficient appliances such as water heaters and furnaces with new higher efficiency units. This proposed incentive will support the City's Green Vision

(Goal #2) and enhance the City's ability to leverage outside funding specific to energy and conservation efforts.

Mobilehome Rehabilitation Changes

Mobilehomes are an essential source of affordable housing in San Jose. In the past five years, the Housing Department has provided funding to rehabilitate over 700 mobilehomes. The vast majority of the rehabilitation projects were funded in the form of grants. This is due to the fact that mobilehomes are not real property, and as such typically depreciate in value and cannot be easily liened. Changes to the Mobilehome Rehabilitation grant structure are being proposed in order to maximize the use of Housing Department funds. The recommended changes are as follows:

1. Lower Income Eligibility Levels for Mobilehome Grant Recipients

The eligibility requirement will be lowered from the current 80% of the Area Median Income (AMI) to 50% AMI. Currently, the income range is \$59,400 - \$84,900 for a household with 1- 4 family members earning 80% of the AMI, as compared to \$37,150 - \$53,030 for the same size household earning 50% of the AMI. This change will ensure that funds are focused on assisting residents with the greatest need and those with the least financial options. The scope of rehabilitation work will be limited to vital health and safety repairs in order to maximize limited funds.

2. Increase Individual Mobilehome Grant Amounts

Staff has proposed to increase the grant amounts from \$12,000 to \$15,000 for mobilehome rehabilitation. The grant increase is consistent with current construction market costs. Recognizing the shorter service life of most mobilehomes and associated repairs, the Housing Department is also changing the current practice that allows only one grant per mobilehome in perpetuity, to allow mobilehome owners to reapply for grants after 10 years.

3. Mobilehome Repair Fund Budget Limit

Demand for mobilehome repair resources is disproportionately high when compared to the number of mobilehome units as a portion of owner-occupied homes. In addition, mobilehome repair assistance is provided in the form of grants and does not provide an ongoing source of funding. Staff is therefore recommending a limit of 25% of the annual Housing Rehabilitation Program budget for mobilehome repairs. This budget is consistent with the average production expenditures over the past five years. With the revised grant limits being proposed, this will fund between 100 and 140 mobilehome repair projects per year.

Required Findings of Benefit for Use of 20% Funds Outside of RDA Project Areas

The use of 20% Low and Moderate-Income Housing Funds for the Program's loans and grants in areas outside of a redevelopment project area provides benefits to redevelopment project areas in San José. These loans and grants will help revitalize neighborhoods that are near redevelopment areas and generally assist efforts to improve affordable housing in redevelopment project areas. Further, the use of 20% Housing Funds for the Program will be of benefit to redevelopment project areas because the Program helps prevent and eliminate blight, revitalizes neighborhoods, and improves and assists in the retention of affordable housing throughout the City.

EVALUATION AND FOLLOW-UP

No further City Council action will be required. The Housing Department will continue to post Rehabilitation Program production reports on the Housing website on a quarterly basis.

POLICY ALTERNATIVES

In reaching the recommendation spelled out above, the following alternative was also considered:

Alternative #1: The Mayor and City Council may choose to not accept staff's recommended changes to the Housing Rehabilitation Program.

- Pros:** Maintaining current grant and loan limits would allow the Program staff to serve more applicants in the short-term by keeping the emphasis on grants instead of loans. If fewer funds were needed, more resources could be made available for other housing uses. Maintaining the current funding allocations for the Mobilehome Rehabilitation Program will potentially assist more people in the short-term.
- Cons:** Current Housing Rehabilitation Program guidelines result in a large proportion of funds dispensed as grants rather than loans, resulting in decreasing income to the Program for future projects. In addition, current grant and loan limits often fall short of meeting the need of individual rehabilitation projects, possibly resulting in inadequate repairs. The new grant programs will provide additional service options to residents.
- Reason for not recommending:** The amendments requested have all been researched and approved by staff and stakeholders as beneficial for the City, program service recipients and the community. The changes will help ensure the continued financial viability of the Housing Rehabilitation Program, thereby helping more applicants in the long-term.



PUBLIC OUTREACH

- 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)**

In addition to e-mail and website posting, these proposed changes have also been presented to and endorsed by the Housing and Community Development Commission. The Mobilehome Advisory Commission could not review these policy changes because there are only two sitting commissioners and three commissioners are required to take action. However, the two remaining Commissioners each endorsed these changes.

COST IMPLICATIONS

The recommended actions will have no cost implications to the City.

BUDGET REFERENCE

Not applicable.

COORDINATION

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

CEQA

Not a Project


LESLYE KRUTKO
Director of Housing

For Questions, Contact Leslye Krutko, Director of Housing, at (408) 535-3851.

HOUSING REHABILITATION PROGRAM CHANGES

SINGLE-FAMILY PROPERTIES

EXISTING PROGRAM	PROPOSED PROGRAM CHANGES						
<p>Program Grants</p> <p>The Rehab Program administers \$15,000 Health and Safety grants City wide.</p> <p>Grants can be used for any program eligible repair(s) or improvement(s) as long as the repair is within budget.</p> <p>Grants are limited to Low-income (80% of AMI)</p> <p>Grants are limited to Owner-Occupied Single-Family or owner occupied duplex.</p> <p>All program grants are identified separately depending on funding source. Currently owners may receive multiple grants of varying amounts.</p>	<p>Owners will be limited to <i>one</i> Housing Department funded grant per household. (See Outside Grant funding for non-Housing funds)</p> <p>Non-SNI Neighborhoods \$5,000 Grant Limit Limit scope of work to vital health and safety repairs such as plumbing, electrical and heating repairs.</p> <p>SNI Neighborhoods—Limit scope of repairs to basic health and safety.</p> <ul style="list-style-type: none"> ▪ E-low (30% or below AMI)-\$15,000 grants for essential repairs ▪ V-low (30% to 50% AMI)-\$10,000 grants for essential repairs ▪ Low-\$5,000 grants for essential repairs <table border="1" data-bbox="673 478 738 1032"> <thead> <tr> <th colspan="2">Grant Maximum (Housing Funds)</th> </tr> <tr> <th>SNI</th> <th>Non-SNI</th> </tr> </thead> <tbody> <tr> <td>\$18,500</td> <td>\$13,500</td> </tr> </tbody> </table> <p>The Grant maximum amount includes the full Green Incentive Grant.</p> <p>The actual grant maximum may increase with the addition of future grant initiatives funded by the Department. Current Director of Housing Authority for grants funded through Housing is \$25,000 per household.</p> <p>Grants may be administered in conjunction with program loans.</p> <ul style="list-style-type: none"> ▪ Cap lead grant at \$7,500 ▪ Administered only in conjunction with program loans. 	Grant Maximum (Housing Funds)		SNI	Non-SNI	\$18,500	\$13,500
Grant Maximum (Housing Funds)							
SNI	Non-SNI						
\$18,500	\$13,500						
<p>Lead Grants – Typically, \$15K for remediation of lead based paint in conjunction with loans or other grants.</p>	<p>External agency grants may be combined with other Housing funded loans and grants. Grant combinations may not exceed \$25,000 per property.</p>						
<p>External Agency Grant Funding</p>	<p>Housing Rehabilitation Program (HRP) administers various grants originated from external agencies.</p> <p>Example:</p> <p>SNI Grants - \$25,000 maximum (Redevelopment Funds) Energy Grants - \$2,500-\$5,000 (Environmental Services Department) Seismic Grants – Possible future grant (FEMA grant managed through the State)</p> <p>Grants may be combined with all other loans or grants limited only by Directors Delegation of Authority.</p>						

SINGLE-FAMILY PROPERTIES

EXISTING PROGRAM

PROPOSED PROGRAM CHANGES

**Citywide
Z-loan**

Z-loans (Zero interest) are offered City wide at a maximum of \$15,000. Z-loans require much less time than a larger HPP loan to process and underwrite. As an expedited loan, staff does not consider:

- Equity
- Credit
- Existing liens
- No title reports

Terms:

- 15 year automatic deferral
- 0% interest

Z-loans are not provided in conjunction with program grants

The proposed changes to the Z loan include: Increasing loan amount from \$15,000 to \$40,000 Citywide.

As a result of the significant loan amount increase, additional eligibility analysis is recommended:

- Require a minimum 90% Combined Loan to Value (CLTV) (as in HPP)
- Review Credit to determine default risk
- Consider existing liens
- Require Junior Loan Policy

Terms changes:

- Deferral based on a combination housing costs formula and CLTV

To simplify process and expedite funding, Z-loans may be underwritten in conjunction with program grants (see new grant limits).

**Housing
Preservation
Loans (HPP)**

HPP loans are limited to \$100,000 for owner-occupied single family properties. Loans are typically funded from one of the following funding sources:

- CDBG funds
- Loan Reuse Account
- Cal-home funds
- 20% funds

Terms:

SNI areas

- 0% interest
- Automatic 30 year deferral

Non-SNI

- 3% simple interest compounded annually
- Deferrals are based on debt to income ratio
- Amortized for 30 years
- Deferrals- Debt to income is re-evaluated at 5 years for continued deferral

Loans are not provided in conjunction with program grants.

Raise the loan/project limits from \$100,000 to \$150,000 per property. City Council has approved the Directors Delegation of Authority at \$150,000.

Allow HPP loans to be combined with the new grant limits.

Record all loans immediately after approval. This will have no impact on loans with 0% interest. Loans requiring a 3% interest rate will have interest waived and payments deferred for 1 year to allow for bid and construction period.

In conformance with the current Directors Delegation of Authority, \$150,000 will be the overall maximum Rehabilitation project cost, including grants, without seeking City Council approval.

EXISTING PROGRAM		PROPOSED PROGRAM CHANGES			
<p>Minor Repair Services</p>	<p>Critical repairs for Plumbing (\$2,500), Electrical (\$2,500) and Heating (\$3,500) owner-occupied.</p> <p>Services are provided directly to the owners through a City contracted vendor. These direct services enable quick response to urgent repair requests.</p> <p>\$5,000 max. Grant for items over the direct service limit such as handyman repairs, plumbing, electrical, heating over direct services, and accessibility improvements.</p> <p>Program is administered to both single-family owner occupied, Low-income occupied rental units and mobilehome</p> <p>Income eligibility requires household to be at or below 80% of Area Median Income</p>	<p>Shift all other indirect services to Program Grants</p> <p>Direct services provided through the Minor Repair Program will be treated as grants and as such will be deducted from applicant's future program grants or loans.</p> <p>Discontinue providing services to rental units</p>			
<p>Accessibility Grant</p>	<p>Partially covered under Minor Repair Program \$5,000 max.</p>	<p>Terms:</p> <ul style="list-style-type: none"> ▪ \$10,000 max. Grant ▪ Owner-Occupied only ▪ 50% or below of AMI (Area Median Income) <table border="1" style="width: 100%;"> <tr> <td> <p>Include:</p> <ul style="list-style-type: none"> ▪ Permanent ramps ▪ Exterior lifts ▪ Grab bars & rails ▪ Tub shower conversions ▪ Widening entry doors </td> <td> <p>Excludes:</p> <ul style="list-style-type: none"> ▪ Significant structural alterations ▪ First to second story lifts ▪ Elevators </td> </tr> </table> <p>Grants may be administered in conjunction with program loans.</p>	<p>Include:</p> <ul style="list-style-type: none"> ▪ Permanent ramps ▪ Exterior lifts ▪ Grab bars & rails ▪ Tub shower conversions ▪ Widening entry doors 	<p>Excludes:</p> <ul style="list-style-type: none"> ▪ Significant structural alterations ▪ First to second story lifts ▪ Elevators 	
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<p>Green Incentive Grants</p>	<p>None</p>	<ul style="list-style-type: none"> ▪ Eligibility will include Single-family and Mobile home owner occupied households at or below 80% AMI ▪ Offer an additional up-to amount of \$3,500 in grants to households meeting the green point threshold established under this program ▪ These grants will be administered in conjunction with other Program funds 			

	EXISTING PROGRAM	PROPOSED PROGRAM CHANGES
Mobilehome Grants	<p>The mobilehome grants are limited to \$12,000 per household.</p> <p>Owner is eligible for 1 grant in perpetuity.</p>	<p>Raise mobilehome grant from \$12,000 to \$15,000</p> <p>Owners may reapply for mobilehome grant after 10 years from previously completed repairs.</p> <p>Establish annual budget for mobilehome program at maximum of 25% of overall program budget annually (between 100 and 140 project completions per year)</p> <p>Limit repairs to vital health and safety repairs such as roofs, heating, plumbing and electrical</p> <p>Limit Mobilehome program to 50% of AMI and below</p>
Mobilehome Loans	<p>Policy does not restrict mobilehome loans.</p> <p>Mobilehome loans are limited to \$20,000 property</p>	<p>Provide loans only on viable homes.</p> <ul style="list-style-type: none"> ▪ Must have adequate value ▪ Must assess client risk (credit) ▪ No trailers