



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: August 24, 2009

Approved

Date

9-1-09

COUNCIL DISTRICT: 6,3,5
SNI Area(s): Burbank/Del
Monte & 13th Street, Mayfair

SUBJECT: ADOPTION OF A RESOLUTION AUTHORIZING THE DIRECTOR OF HOUSING TO ACCEPT BUILDING EQUITY AND GROWTH IN NEIGHBORHOODS (BEGIN) HOUSING PROGRAM GRANTS FROM THE CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT AND ADOPTION OF APPROPRIATION ORDINANCE AND FUNDING SOURCES RESOLUTION AMENDMENTS

RECOMMENDATION

It is recommended that the City Council:

- 1) Adopt a resolution authorizing the Director of Housing to accept Building Equity and Growth in Neighborhoods (BEGIN) housing program grants from the California Department of Housing and Community Development (HCD) and to negotiate and execute the grant agreements and any amendments or other documents necessary to implement the programs funded by the following BEGIN grants:
 - a. An additional \$6,000,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in the Monte Vista development for a total amount of \$8,280,000.
 - b. An additional \$1,550,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in the Modern Ice development for a total amount of \$2,750,000.
 - c. An additional \$600,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in the Tierra Encantada development for a total amount of \$960,000.

- 2) Adopt the following Appropriation Ordinance and Funding Sources Resolution amendments in the Multi-Source Housing Fund (448) for 2009-2010:
 - a. Increase the CalHOME (BEGIN) Program appropriation in the Multi-Source Housing Fund (448) by \$8,150,000.
 - b. Increase the estimate for Earned Revenue in the Multi-Source Housing Fund (448) by \$8,150,000.

BACKGROUND

The Housing Department has aggressively pursued funds made available through the passage of Proposition 46 in November, 2002 and later Proposition 1C in November, 2006. BEGIN funds are available to cities and counties that have contributed to the reduction of housing costs through various "regulatory relief measures, such as modification of density or zoning standards, flexible parking standards, reductions in permit processing or regulatory costs, and project design." Since the Program's inception, the City has been awarded \$9,780,000 of BEGIN funds from the California Department of Housing and Community Development (HCD) to assist 326 families purchasing in 19 new for-sale developments.

The Housing Department has submitted applications and received conditional approvals for three additional separate BEGIN program grants totaling \$8,150,000 to assist up to 132 homebuyers in the following new for-sale developments: (1) Monte Vista, (2) Modern Ice (3) Tierra Encantada. HCD requires approval by the City Council to accept these new funds. Upon City Council approval, the Director of Housing will be authorized to execute three amended BEGIN grant agreements with HCD.

ANALYSIS

The City will use the BEGIN funds to make deferred payment loans for low- and moderate-income persons or families purchasing homes in the targeted developments. All loans will be up to 20% of the purchase price and accrue interest at a rate of 3% simple interest, deferred.

Under the BEGIN program, the City may retain program income from loan repayments and any interest earned on these funds. This income may be reused only for first-time homebuyer downpayment assistance, home rehabilitation, homebuyer counseling, home acquisition and rehabilitation, or self-help mortgage assistance for persons and families of low- or moderate-income. Brief summaries of the three projects approved by HCD for BEGIN funding are provided below.

DEVELOPMENTS AWARDED FUNDS:

Monte Vista at Cannery Square/Madison:

The Monte Vista at Cannery Square condominium development is being developed by KB Home South Bay, Inc., and is located on the corner of Sunol Street and Auzerais Avenue in the Burbank/Del Monte SNI Area. The site is located adjacent to both a Valley

Transportation Authority (VTA) future light rail station and the proposed extension of the Los Gatos Creek Trail. This project was approved as part of a larger condominium and townhome style project on the old Del Monte Cannery site. The full project is a mix of 383 residential units of which 76 shall be sold to low- and moderate-income households through the City's Inclusionary Housing Program. The builder has indicated that approximately 90 units remain unsold at Monte Vista at Cannery/Madison. The BEGIN funds will provide buyers with additional downpayment assistance and enable up to 80 low- and moderate-income households to become homeowners.

Modern Ice:

Modern Ice is a 200-unit townhome style condominium development located at the corner of Berryessa and Oakland Roads in the 13th Street Redevelopment Strong Neighborhood Initiative (SNI) Redevelopment Area. The project is being developed by Taylor Woodrow Homes, Inc. The City Council previously approved a \$1.2 million award of BEGIN funds for Phase I of the Modern Ice project on February 26, 2008. Phase one units are currently being sold with the assistance of the previously awarded funds. Phase II is under construction. The \$2.75 million in BEGIN funds will be used to assist up to 40 low- and moderate-income first-time homebuyers purchase an affordable unit.

Tierra Encantada:

Tierra Encantada is a 100% affordable, two- and three-bedroom, townhouse style development adjacent to the Tierra Encantada family project located on the corner of Alum Rock Avenue and McCreery Lane in the Mayfair SNI Area. The townhome and rental projects were approved in 2002. The rental development was completed in 2005, and the townhomes were completed in 2008. The additional grant will assist up to 12 affordable buyers. It should be noted that on June 16, 2009, the City Council approved an Interim Affordability Restriction on the Tierra Encantada property to allow the project owner to temporarily rent eight rental units to low-income tenants for a period of five years. It is the owners' intention to rent the units while they are being marketed to for-sale customers.

Housing Department staff will work with each of the developers to ensure that all BEGIN assisted units will be bought by qualified low- and moderate-income first-time homebuyers. By accepting these grant funds, the City will be able to assist up to 132 low- and moderate-income first-time homebuyers with low interest deferred loans of up to 20% of the purchase price to be used for downpayment assistance.

STATE REIMBURSEMENT

The City is obligated to "front" the funds for the homebuyer loans. Reimbursement from the State is requested after the loan has been funded and the City's reimbursement request has been approved by HCD. Given the State's budget situation, it is uncertain when funds will be available to reimburse the City for funds it fronts. The State Treasurer has indicated that he intends to borrow funds this Fall and possibly as soon as September. Therefore, the Department will closely monitor this situation and the Director will only authorize utilization of the BEGIN award when it is certain State funding is available. Under the terms of the BEGIN awards, the

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Department has three years to request reimbursement from the State. Additional extensions can be granted by HCD.

EVALUATION AND FOLLOW-UP

Upon approval of this memo, Housing Department staff will work with HCD staff to negotiate and accept the BEGIN grant award documents.

POLICY ALTERNATIVES

To arrive at this proposal, staff also considered the following option:

Alternative #1: ***Do not accept the BEGIN grant funds.***

Pros: By not accepting the State grants, the City will forego the risk of utilizing funds that may not be reimbursed within an acceptable timeframe.

Cons: Declining to accept the funds will disrupt the ongoing marketing efforts that are already targeting low- and moderate-income families plan to purchase units for which BEGIN funds have already been awarded.

**Reason for Not
Recommending:** The BEGIN funds help stimulate the local housing market and increase affordability for low- and moderate-income buyers. If funds are not accepted, the City will forego any chance of receiving \$8,150,000 in State funds. These funds can be retained by the City for housing purposes benefiting low- and moderate- income individuals.

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)**

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None of these criteria apply as these funds are provided by the State specifically for these projects. This Memorandum will be posted to the City's website for the September 15, 2009, Council Agenda.

COORDINATION

This memorandum was coordinated with the City Attorney's Office.

COST IMPLICATIONS

There will be no negative impact to the general fund as a result of approving these recommendations. These recommendations, if approved, will assist the Housing Department in securing additional revenue and providing first-time homebuyers with additional City subsidies.

BUDGET REFERENCE

The table below identifies the fund and appropriations proposed to fund the programs recommended as part of this memorandum.

Fund #	Appn #	Appn. Name	Total Appn	2009-2010 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
448	3312	CalHome (BEGIN) program	\$1,635,000	XI - 69	N/A

* The Proposed Operating Budget was adopted by the City Council on June 23, 2009.

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CEQA

Not a Project.



JENNIFER A. MAGUIRE
Budget Director



LESLYE KRUTKO
Director of Housing

I hereby certify that there will be available for appropriation in the Multi-Source Housing Fund in the Fiscal Year 2009-2010 monies in excess of those heretofore appropriated there from, said excess being at least \$8,150,000.



JENNIFER A. MAGUIRE
Budget Director

Please contact Leslye Krutko regarding questions at 408-535-3851.

