



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko
Jennifer A. Maguire

SUBJECT: BEGIN PROGRAM GRANTS

DATE: July 19, 2010

Approved

Date

7-26-10

COUNCIL DISTRICT: 3 & 6
SNIAREA: Julian/Stockton &
Spartan/Keyes

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) when issued 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. A \$2,000,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in The 88 condominium development.
 - b. An \$820,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in The Works condominium development.
 - c. A \$2,400,000 grant to fund downpayment assistance loans to first-time homebuyers in the Axis condominium development.
 - d. A \$2,000,000 grant to fund downpayment assistance loans to first-time homebuyers in the 360 Residences condominium development.
 - e. A \$1,176,500 grant to fund downpayment assistance loans to first-time homebuyers in the Villa Fontana condominium development.
- 2) Adoption of the following Appropriation Ordinance and Funding Sources Resolution amendments in the Multi-Source Housing Fund:
 - a. Increase the estimate for Earned Revenue by \$2,820,000

- b. Increase the CalHome (BEGIN) Program project by \$2,820,000

OUTCOME

The City of San José will receive \$8,396,500 in State grant funds that will be used to provide low-interest mortgage loans to low- and moderate-income families in targeted new housing communities in San José. In addition to providing families with homeownership opportunities, these funds will help stimulate the local housing market.

BACKGROUND

Proposition 1C was approved by the voters in November 2006; one of the programs funded is the State's BEGIN program. HCD has made BEGIN funds available to cities and counties that have significantly contributed to the reduction of housing development costs to builders through various regulatory relief and development incentives such as modification of density standards, flexible parking standards, streamlined project review, and fee waivers or deferrals. Since the inception of the BEGIN Program in 2002, the Department of Housing has applied for and received over \$19.4 million in competitive grant funding from HCD, making the City of San José the largest beneficiary of BEGIN program funds in the State. Thus far, approximately 257 first-time homebuyers have received a BEGIN program loan from the City of San José.

The most recent BEGIN Notice of Funding Availability was published in April, 2010. In response, the Department of Housing submitted five applications. As of the date of this memo, formal award letters have been received for two grants totaling \$2,820,000. HCD continues to review applications in the order in which they are received and Housing Department staff is working closely with HCD to help expedite the review of the remaining three applications. It is anticipated that formal award letters for the remaining three projects will be received by early August. If all five of the applications are approved, the total amount of new grant revenue will total \$8,396,500 and will be used to assist approximately 99 first-time homebuyer households in the following new for-sale developments: (1) The 88; (2) The Works; (3) Axis; (4) 360 Residences; and (5) Villa Fontana. 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 five new BEGIN grant agreements, and related documents or amendments with HCD.

ANALYSIS

Upon approval of this memo, the City will use the BEGIN funds to make deferred payment loans for low- and moderate-income first-time homebuyers purchasing homes in the new housing developments for which the City receives a BEGIN award. Maximum BEGIN program loan amounts can be as high as 20% of the sales price, providing much needed gap financing for first-time homebuyer households. Further, all BEGIN loans are structured as 3% simple-interest loans, with no monthly payment requirements for thirty years, or until the home is sold or transferred to

an ineligible household. BEGIN program grants will continue to be offered to income-eligible families until either the grant funds are depleted, or three years from the date of the award, whichever occurs first.

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 future first-time homebuyer downpayment assistance loans for persons or families of low-or moderate income.

NEW DEVELOPMENTS:

The 88:

The 88 is a 197-unit high-rise condominium located in the San Antonio Redevelopment Project Area in downtown San José. The \$2.0 million in BEGIN funds will be used to assist twenty-two low- and moderate-income first-time homebuyers purchase a market rate home within that development. The project was developed by Wilson, Meany, and Sullivan, LLC in late 2008. The 88 is over 50% sold, and Pacific Marketing Associates is currently marketing and selling the remaining units.

The Works:

The Works is a 74-unit condominium project located in the Spartan/Keyes Strong Neighborhoods Initiative (SNI) Area. The project was subject to the City's Inclusionary Housing Policy and all designated affordable units have sold. The \$820,000 in BEGIN funds will be used to assist homebuyers of the remaining ten market rate units purchase a home within this project. The project was developed by Barry Swenson Builders in December 2006.

Axis:

The Axis is a 329-unit high-rise residential condominium development located in the Almaden Gateway Redevelopment Project Area in Downtown San José. The \$2.4 million in BEGIN funds will be used to assist approximately thirty low- and moderate-income first-time homebuyers purchase a market rate home within that development. The project was sponsored by KT Properties, Inc., and completed construction in 2008. The project is approximately 40% sold, and Pacific Marketing Associates is marketing the remaining units.

360 Residences:

The 360 Residences is a 213-unit high-rise condominium development located in the Market Gateway Redevelopment Project Area in Downtown San José. The \$2.0 million in BEGIN funds will be used to assist approximately twenty-four low- and moderate-income first-time homebuyers purchase a market rate home within that development. The project was developed by Mesa Development, LLC in 2009. The Mark Company is helping to market and sell the units.

Villa Fontana:

Villa Fontana is a 91-unit condominium development located in the Fruitdale Station Neighborhood Business District on the corner of Fruitdale Avenue and Southwest Expressway in District 6. The \$1,176,500 in BEGIN funds will be used to assist approximately thirteen low- and moderate-income first-time homebuyers purchase a market rate home within that development.

The project was sponsored by Hudson Companies, and completed construction in early 2009. The project is approximately 75% sold, and the requested BEGIN funds will help homebuyers with downpayment assistance so that they can afford to purchase the remaining units.

EVALUATION AND FOLLOW-UP

Upon approval of this memo, staff from the Department of Housing will work with HCD to ensure that all of the listed grants are awarded and to negotiate and execute the BEGIN grant awards and related documents and amendments.

POLICY ALTERNATIVES

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

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

Pros: Each of the developers is already reaching out to prospective low- and moderate-income homebuyers, and some income-eligible buyers may be able to access sufficient mortgage financing without additional funding from the City.

Cons: Declining to accept the funds will disrupt the ongoing marketing efforts that are already targeting low- and moderate-income families. Further, the BEGIN funds will provide significant financial assistance to first-time homebuyers in need of downpayment assistance.

Reasons for Not Recommending: Despite the housing market downturn, the City of San José remains one of the most expensive housing markets in the nation and demand for new housing units continues in some communities is still slower than expected. Providing homebuyers with much needed financial assistance will help increase affordability for low- and moderate-income first-time homebuyer households and help stimulate home sales of new construction condominiums in and near Downtown San José. Further, future BEGIN loan repayments may be kept by the City to help create a sustainable revolving loan program that can be used to assist future first-time homebuyers.

PUBLIC OUTREACH/INTEREST

This action meets Public Outreach Criterion #1. This memo will be posted to the City Council Agenda for August 10, 2010, via the City's website. In addition, the developers with new construction for-sale housing projects have been notified of these current and future grant funds and are working closely with staff from the Department of Housing to market these funds to homebuyers in an effort to sell their units. Housing Department staff has also notified prospective

homebuyers and the City's primary housing partners, such as Neighborhood Housing Services of Silicon Valley (NHSSV), the Santa Clara County Association of Realtors (SCCAOR), and the Housing Trust of Santa Clara County (HTSCC) of this agenda item via a posting on the Department of Housing website at www.sjhousing.org, and various outreach and training events.



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)**

COORDINATION

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

FISCAL/POLICY ALIGNMENT

This recommendation is consistent with the City's Council-approved Five-Year Housing Investment Plan for FY 2007/08-FY 2011/12, which describes the process of applying for State funds through the BEGIN Program in order to provide second mortgage assistance for first-time homebuyers in newly constructed for-sale housing developments.

COST SUMMARY/IMPLICATIONS

The recommendations in this memorandum will recognize and appropriate funds for two of the five grants awarded totaling \$2,820,000 from the California Department of Housing and Community Development. The grant funding will provide low-interest mortgage loans to low- and moderate-income families in targeted new housing communities in San José.

BUDGET REFERENCE

Not applicable.

CEQA

Not a project, File No. PP10-066(e), Services that involve no physical changes to the environment.

HONORABLE MAYOR AND CITY COUNCIL

Due Date: July 19, 2010

Subject: **BEGIN Program Grants**

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/s/

LESLYE KRUTKO
Director of Housing


JENNIFER A. MAGUIRE
Budget Director

I hereby certify that there will be available for appropriation in the Multi-Source Housing Fund in the fiscal year 2010-2011 monies in excess of those heretofore appropriated there from, said excess being at least \$2,820,000.


JENNIFER A. MAGUIRE
Budget Director

For questions, please contact Leslye Krutko, Director of Housing, at 408.535.3851