



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko
Jennifer Maguire

SUBJECT: SEE BELOW

DATE: August 9, 2010

Approved *Danna Satre*

Date *8/17/10*

COUNCIL DISTRICTS: 2, 3, 5, 7, 8

SNI AREAS: K. O. N. A., Mayfair, Tully Senter, Gateway East, West Evergreen, Spartan
Keys, Five Wounds/Brookwood Terrace, East Valley/680 Communities, Edenvale/Great Oaks

**SUBJECT: CONTRACT AMENDMENT FOR THE NEIGHBORHOOD
STABILIZATION PROGRAM SINGLE-FAMILY ACQUISITION,
REHABILITATION, AND RESALE PROGRAM**

RECOMMENDATION

Adoption of a resolution by the City Council to:

- 1) Adopt the following Appropriation Ordinance and Funding Sources Resolution amendments in the Multi-Source Housing Fund:
 - a. Increase the estimate for Earned Revenue by \$1,300,000; and
 - b. Increase the Neighborhood Stabilization Program (NSP) appropriation in the Housing Department by \$1,300,000.
- 2) Authorize the Director of Housing to negotiate and execute a contract amendment up to an additional \$2,068,859, for a total award of \$5,868,859, with Community Rehabilitation Partners (CRP) to implement the federally-funded Neighborhood Stabilization Program Single-Family Acquisition, Rehabilitation, and Resale Program.

OUTCOME

The City Council's approval of this recommendation will ensure revenue collected from the resale of NSP homes is reinvested in the program and enables the City to meet its NSP funding commitments by amending the current CRP contract to 1) increase the amount to include

program income generated from the sale of single-family NSP 1 funded properties, and 2) amend the scope of services to include the Rehabilitation of two four-unit apartment buildings purchased by the City with NSP funds, located at 110 #22 and 127 Roundtable Drive, for resale to an entity for rental to very-low income households. This action will ensure that the balance of NSP 1 funds are fully obligated and fully expended per the City's agreement with the Department of Housing and Urban Development (HUD).

BACKGROUND

Neighborhood Stabilization Program Grant Agreement

On November 18, 2008, the City Council adopted a resolution to authorize the Director of Housing to accept federal Neighborhood Stabilization Program funds (NSP1) in the amount of \$5,628,283 under the Housing and Economic Recovery Act of 2008. On March 11, 2009, HUD executed a grant agreement with the City for the NSP1 funds. The grant agreement requires the City to obligate the funds within 18 months of the date on which HUD executed the grant agreement, or by September 11, 2010. It also requires the City to expend the funds within four years, or by March 11, 2013.

Community Rehabilitation Partners Agreement

On September 15, 2009, the City Council adopted a resolution to 1) approve a contract award of up to \$3,800,000 to CRP for the federally-funded Neighborhood Stabilization Program (NSP1) Single-Family Acquisition/Rehabilitation/Resale Program, and 2) authorize the Director of Housing to negotiate and execute an agreement with CRP to implement the program.

The City selected CRP for the Acquisition, Rehabilitation, and Resale of Single-Family Homes in response to a Request for Proposals (RFP). CRP was selected from seven entities submitting proposals based on the Evaluation Criteria for Qualification included in the RFP. As described above, the City contracted with CRP to successfully implement the objectives of the NSP1 Single-Family Acquisition/Rehabilitation/Resale Program as stated in the RFP:

- To mitigate blight caused by vacant residences in neighborhoods having a high concentration of foreclosures;
- To target four San Jose zip codes that ranked between 7 and 10 on HUD's Foreclosure and Abandonment Risk Scores;
- To assist San José's low- and moderate-income households by increasing, preserving, and improving housing that is affordable and livable;
- To enhance the fabric of the neighborhood by incorporating quality design, materials, and construction in each rehabilitated property;
- To incorporate practical green-building features into the design of each rehabilitated property;

- To hire local trades persons to keep San Jose residents employed; and
- To comply with the HUD NSP regulations.

On October 29, 2009, the City executed an agreement with CRP for up to \$3,800,000 to implement the NSP1 Single-Family Acquisition/Rehabilitation/Resale Program. Since then, CRP and the City have 1) acquired 12 single-family houses in four target zip codes¹, 2) completed rehabilitation of seven houses, 3) commenced rehabilitation of five houses, and 4) sold four homes to low- or moderate-income households with NSP1 down-payment assistance. In addition, one house is currently in escrow and one house is for sale. The City has obligated the entire \$3,800,000 to CRP under the current contract for the NSP1 Single-Family Acquisition/Rehabilitation/Resale Program.

NSP1 25% Set Aside

NSP1 requires that a minimum of 25% of the \$5,628,283 grant award, or \$1,407,070, be designated for housing targeted to very low-income households earning 50% or less of the Area Median Income (AMI). On June 2, 2009, the City's Housing Department partnered with the San Jose Redevelopment Agency to evaluate and purchase 1-4 unit residential properties to meet the 25% requirement. In September and November 2009, the City expended a total of \$869,440 to purchase two foreclosed fourplexes, containing a total of eight units, located at 110 #22 and 127 Roundtable Drive in Council District 2. Uncommitted funds of \$768,859 will be used to rehabilitate the fourplexes for resale and re-occupancy by income-eligible households. Under HUD regulations, the City must fully obligate the initial allocation of NSP1 funds by September 11, 2010. HUD considers NSP1 funds obligated if they are committed by contract for an eligible use of funds.

ANALYSIS

Budget Appropriation Increase

The budget appropriation increase is comprised of program income generated from the resale of the rehabilitated homes. It is estimated that an average of \$92,000 in program income will be generated from the resale of each of the 12 single-family homes, for a total of \$1,104,000, and an additional \$196,000 from the resale of the two fourplexes. The program income will be re-invested and used for NSP1 eligible activities, including up to 10% for program administration.

Contract Amendment

The existing CRP contract approved by City Council in September 2009 is limited to \$3,800,000. CRP has successfully administered the initial allocation of funds by meeting the contract deadlines ahead of schedule while providing consistently high quality rehabilitated homes within budget. Approval of these recommendations will enable the Director of Housing to amend the existing contract with CRP to include projected program income of \$1,300,000 recaptured through the sale of the NSP homes. Additionally, the contract amendment will

¹ 95111, 95116, 95122, 95127

August 9, 2010

Subject: CONTRACT AMENDMENT FOR THE NEIGHBORHOOD STABILIZATION PROGRAM

Page 4

include rehabilitation of the two fourplexes purchased by the City for the purposes of meeting the Programs 25% set aside requirement. Rehabilitation will be funded with the \$768,859 balance of the initial funds allocated. Inclusion of these units will fulfill the City's September 11, 2010 obligation requirements.

The contract amendments are consistent with the existing program guidelines and CRP contract requirements. The additional program income will be utilized to continue implementation of the Single-family Acquisition/Rehabilitation/Resale Program. HUD NSP regulations consider single-family homes as any residential building containing up to four units, therefore, rehabilitation of the fourplexes is considered a component of the Single-Family Acquisition/Rehabilitation/Resale Program.

Housing Department staff has created a general scope of work and project budget for the rehabilitation of each fourplex. Prior to execution of the contract amendment, Housing Department staff will include a detailed project scope of work, specifications, and budgets. Upon City Council approval of this recommendation, staff will work with the City Attorney's office to develop a final contract amendment and execute by September 11, 2010.

Staff believes rehabilitation of the fourplexes could begin in late September 2010 and end in the first quarter 2011. As the rehabilitation commences, staff intends to issue an RFP to select an entity to purchase, manage, and rent the fourplexes to very low-income households earning 50% of AMI. Staff anticipates issuing the RFP this Fall and will return to Council in Spring 2011 with a recommendation to sell the rehabilitated properties to a qualified entity. NSP1 regulations require that these units be occupied with very low-income households by March 11, 2013.

POLICY ALTERNATIVES

The Housing Department considered the following alternative before recommending approval of a contract amendment:

Alternative #: Deny the contract amendment to Community Rehabilitation Partners for NSP1.

Pros: Denial of the contract amendment would avoid concentrating federal grant funds with one entity.

Cons: Denial of the contract amendment would not allow the City to fully capitalize on the capacity of the development entity that was selected through a comprehensive Request for Proposal Process and has demonstrated its ability to successfully implement the Single-Family Acquisition/Rehabilitation/Resale Program. **The City would not be able to obligate 100% of the NSP funds by September 11, 2010.**

Reason for not recommending: The alternative was rejected because it would result in the inability to fully commit the \$768,859 balance of NSP funds by the September 11, 2010 deadline which would result in HUD recapturing the unobligated funds. Additionally, the Director of Housing would need to seek further City Council action to utilize the projected program income.

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)**

The recommendation in this memorandum meets Criterion 1: Requires Council action on the use of public funds equal to \$1 million or greater. This memorandum will be posted on the City's website for the August 31, 2010 Council agenda in addition to the Housing Department's website.

COORDINATION

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

FISCAL/POLICY ALIGNMENT

Approval of the contract amendment for the NSP1 Single-Family Acquisition/Rehabilitation/Resale Program furthers the San Jose 2020 General Plan Urban Conservation/Preservation Major Strategy by eliminating blight caused by foreclosures, and sustains a viable neighborhood by rehabilitating existing housing for occupancy by low-income households. It would also further the Housing Major Strategy by providing high quality housing opportunities to meet the needs of all economic segments in neighborhoods which are stable and have adequate urban services.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION/COST OF PROJECT: \$2,068,859

2. COST ELEMENTS OF AGREEMENT/CONTRACT:

| Contract Amendment | Amount |
|---|-------------|
| Initial NSP grant balance designated for 25% set aside | \$768,859 |
| Projected Program Income from resale of single-family homes | \$1,300,000 |
| Total | \$2,068,859 |

August 9, 2010

Subject: CONTRACT AMENDMENT FOR THE NEIGHBORHOOD STABILIZATION PROGRAM

Page 6

3. SOURCE OF FUNDING: Fund 448 - Multi-Source Housing Fund
4. FISCAL IMPACT: The recommended actions in this memorandum will have no significant adverse impact on the General Fund.

BUDGET REFERENCE

The table below identifies the fund and appropriation proposed to fund the amendment of the contract recommended as part of this memo.

| Fund # | Appn # | Appn. Name | Total Appn | Amt. for Contract Amendment | 2010-2011 Proposed Budget (Page) | Last Budget Action (Date, Ord. No.) |
|---------------------------------------|--------|------------------------------------|--------------------|-----------------------------|----------------------------------|-------------------------------------|
| Current Funding Available | | | | | | |
| 448 | 3745 | Neighborhood Stabilization Program | \$1,915,400 | \$1,068,859 | XI-67 | June 29, 2010 Ord. No. 28765 |
| Additional Funding Recommended | | | | | | |
| 448 | 3745 | Neighborhood Stabilization Program | \$1,300,000 | \$1,000,000 | | |
| Total Funding | | | \$3,215,400 | \$2,068,859 | | |

CEQA

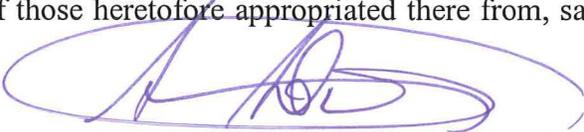
Exempt, PP09-166

/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 \$1,300,000.



JENNIFER A. MAGUIRE
Budget Director

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