



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Corsiglia

SUBJECT: SEE BELOW

DATE: March 5, 2012

Approved

Date

3-13-12

COUNCIL DISTRICTS: 2, 3, 4, 5, 6, 7, 8, and 10

SNI AREAS: 13th Street, Washington,

University, Greater Gardner, K.O.N.A., Mayfair, Tully/Senter, Gateway East, West Evergreen, Spartan Keys, Hoffman/ViaMonte, East Valley/680 Communities, Edenvale/Great Oaks,

SUBJECT: SUBSTANTIAL AMENDMENT TO THE 2011-2012 CONSOLIDATED ANNUAL ACTION PLAN TO RESERVE UP TO \$3,700,000 OF HOME FUNDS FOR NSP2 HOME ACQUISITION ACTIVITIES FOR THE NEIGHBORHOOD STABILIZATION PROGRAM 2 (NSP2).

RECOMMENDATION

- (a) Hold a public hearing on a Substantial Amendment to the 2011-2012 Consolidated Annual Action Plan (ConPlan) to reserve up to \$3,700,000 of Home Investment Partnership Program (HOME) funds to supplement the City's NSP2 Home Acquisition and Rehabilitation Program; and
- (b) Adopt a resolution to approve the Substantial Amendment to the 2011-2012 Consolidated Annual Action Plan.

OUTCOME

Approval of the recommended action will allow the City to utilize HOME funds in conjunction with federal Neighborhood Stabilization Program 2 (NSP2) Funds in order to meet the NSP2 Program goal of having 64 homes purchased, rehabilitated and resold by February 11, 2013.

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BACKGROUND

In early 2009, the City of San José, along with the Housing Trust of Santa Clara County and Neighborhood Housing Services of Silicon Valley, formed an "NSP 2 Consortium" to apply for a federal grant under the American Recovery and Reinvestment Act (ARRA) of 2009. In late 2009, the Consortium was awarded a \$25 million grant to implement the funding strategies outlined in the Consortium's funding application. The overall objective of this grant is to restore neighborhood stability and eliminate blight in the areas severely affected by foreclosure.

The activities outlined under the Consortium's Program Agreement executed with the Department of Housing and Urban Development (Program Agreement) include: (1) provide homeownership assistance to low and moderate-income homebuyers purchasing foreclosed homes in the NSP designated areas; and (2) acquire and develop or rehabilitate foreclosed properties in the designated census tracts to be either rented or resold to income eligible households. In accordance with the funding application and Program Agreement, the Housing Trust is responsible for implementing and managing the NSP2 funded homebuyer program under the grant, while the City's Housing Department is responsible for implementing and managing the acquisition, rehabilitation and resale program.

Under the Program Agreement, the Consortium is required to meet a combined goal of 205 assisted units. Under the acquisition, rehabilitation and resale activities, the Housing Department has implemented two programs to meet the NSP2 goals: (1) utilization of 25% of the total grant to assist individuals or families meeting the very low-income category through the acquisition and rehabilitation of multi-family rental units restricted to very low-income renters; and (2) purchase and rehabilitation of distressed foreclosed and vacant properties which are sold to low or moderate-income homebuyers ("San José Dream Home Program").

The programmatic goal of the San José Dream Home Program is to purchase 64 foreclosed and vacant properties within the San José neighborhoods hardest hit by the foreclosure crisis. To date, 100% of NSP2 funds for the San José Dream Home Program have been spent with 33 properties having been purchased and 12 properties having been resold to eligible households.

ANALYSIS

Meeting the production goal of 64 properties is predicated on the recycling of Program Income from the sales of these properties. When the properties are sold, the funds (Program Income) from the sale return to the Program, and are then recycled to purchase more properties.

The process of purchasing, rehabilitating and reselling these properties that were purchased with NSP2 funds has taken longer than anticipated. There is not enough Program Income currently returning to the Program which is hampering the ability to purchase the remaining 31 properties in order to reach the Program goal of 64 properties by the NSP2 deadline of February 11, 2013.

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By using HOME funds to fund loans to the program developers to acquire NSP2 properties for rehabilitation, the City can accelerate the purchase of the final 31 properties, providing sufficient time to rehabilitate and resell them to income eligible households. Under this proposal, HOME funds will be used to augment NSP2 funds in the acquisition of properties under the Dream Home Program. A subsidy layering analysis will be completed to ensure compliance with HOME subsidy limits and to prevent any losses to the HOME fund.

Any HOME funds that are not committed by June 30, 2012 will be carried over to the next fiscal year for use until the Program goal of 64 units is attained. As these properties sell, the HOME fund will be made whole (i.e., the \$3,700,000 committed from HOME to NSP2 will be returned to the HOME program). By the time the Program Income returns to the HOME fund, the Housing Department should have a major rental project identified that will be "shovel-ready" to which those HOME funds can be committed.

In order to allocate the \$3,700,000 to the NSP2 Program, it is necessary to reduce HOME funds budgeted to other activities. These adjustments are reflected in the Attachment "Substantial Amendment to 2011-2012 Consolidated Annual Action Plan."

EVALUATION AND FOLLOW-UP

Results of the Recommendation will be reported in the Consolidated Annual Performance and Evaluation Report (CAPER) submitted to Council in September.

POLICY ALTERNATIVES

Alternative #1	<i>Do not use HOME funds for assisting NSP2 to acquire properties.</i>
Pros:	\$3,700,000 would be available to reserve for a Community Housing Developer Organization (CHDO) for a "project to be named later."
Cons:	There are no major rental projects that are shovel-ready.
Reason for not recommending:	There is an immediate need to purchase the final 31 homes with sufficient time to rehabilitate them and resell them by the February 11, 2013 deadline set by HUD. HOME funds are the most readily available to accomplish this mission.

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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 report will be posted on the website for the Council's March 27, 2012 meeting, and:

- The Substantial Amendment to the ConPlan was the subject of a public hearing before the Housing and Community Development Advisory Commission on March 8, 2012.
- The public hearings at both the Commission and Council were noticed by being published in the San José Mercury-News, in Vietnamese-, Spanish-, and Chinese-language newspapers on February 24, 2012.
- Notices of the two public hearings were sent by e-mail and the U.S. Postal Service on February 28, 2012 to approximately 400 individual addresses.

FISCAL/POLICY ALIGNMENT

The expenditure of the recommended HOME funding for NSP2 Dream Home Single-Family Acquisitions implements:

- The 2010-2015 Consolidated Plan goal of supporting activities that provide basic services, eliminate blight, and/or strengthen neighborhoods by supporting the City's Neighborhood Stabilization Program to strengthen neighborhoods affected by foreclosures; and
- The 2010-2015 Consolidated Plan goal of assisting in the creation of affordable housing for lower income and special needs households by supporting affordable ownership housing.

COORDINATION

Preparation of this report was coordinated with the City Attorney's office.

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BUDGET REFERENCE

The table below identifies the fund and appropriation proposed to supplement the City's NSP2 Home Acquisition and Rehabilitation Program as recommended in this memo.

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	2011-2012 Adopted Budget (Page)	Last Budget Action (Date, Ord. No.)
445	0070	Multi-Family Loans and Grants	\$9,699,051	\$3,700,000	N/A	10/18/2011 Ord. No. 28979

CEQA

Not a Project, File No.PP10-069 (a), Annual Report. Specific development projects that are funded as a result of the Consolidated Annual Action Plan are subject to project-specific CEQA clearance.

/s/
LESLYE CORSIGLIA
Director of Housing

Attachment

For questions please contact Leslye Corsiglia, Director of Housing, at (408) 535-3851.

**SUBSTANTIAL AMENDMENT TO THE
2011-2012 CONSOLIDATED ANNUAL ACTION PLAN
FOR THE CITY OF SAN JOSE
March 2012**

1. On page 8 of the approved 2011-2012 Consolidated Annual Action Plan, replace the “HOME” section and table summarizing “Proposed Uses of New HOME funds for FY 2011-12 with the following:

Proposed Uses of New HOME funds for FY 2011-2012

Of the total expected grant amount of \$4,156,100 plus approximately \$4,708,145 of previously uncommitted HOME funds (EN, AD, PI), the City of San José plans to budget HOME funds in the following manner:

	Total Funding Available for 2011-12
Homebuyer Program: Down Payment Asst. (“Welcome Home”)	\$ 900,000
Homebuyer Program: NSP2 Down Payment Assistance	\$ 908,702
Home Acquisition for NSP2 Properties	\$3,700,000
Rehabilitation of SFD	\$1,000,000
Tenant Based Rental Assistance	\$ 843,000
Project Development (Rental Housing/New Construction)	\$ 336,973
CHDO Operating Expenses	\$ 200,000
Administrative Costs	\$ 875,570
<i>Totals</i>	\$8,864,245

2. On page 9 of the approved 2011-2012 Consolidated Annual Action Plan just below the table, make the following (additions and/or deletions):

Approximately, ~~\$1,047,000~~ \$336,973 of ~~CHDO set-aside funds and any other uncommitted funds~~ will be committed to Project Development for the purposes of developing more affordable rental units in the City of San José.

3. On page 9 of the approved 2011-2012 Consolidated Annual Action Plan under the heading “Homeownership,” make the following (additions and/or deletions):

Homeownership – Consistent with the City’s goal to assist lower-income households in becoming homebuyers, the City proposes to use HOME funds for down payment assistance under the City’s Homebuyer programs.

- Approximately ~~\$750,000~~ \$908,702 of HOME funds ~~budgeted, but not committed, from FY 2010-2011~~ will be used to assist NSP2 Homebuyer Program clients by providing down payment assistance as described in the City of San José’s NSP2 agreement with HUD.
- ~~\$1,000,000~~ \$900,000 of HOME funds ~~budgeted but not committed from FY 2010-11~~ will be used to provide deferred payment acquisition financing for lower-income households for the City’s “Welcome Home” Homebuyer Assistance Program.

4. **On page 9 of the approved 2011-2012 Consolidated Annual Action Plan, add the following section after “Homeownership” and before “Tenant-Based Rental Assistance (TBRA)” sections:**

- NSP2 Home Acquisition Assistance – Up to \$3,700,000 of HOME funds will be used to supplement the NSP2 Home Acquisition/Rehabilitation/Resale Program. Funds will assist the NSP 2 program in its efforts to acquire single-family/foreclosed homes for subsequent rehabilitation and resale to low-income homebuyers. The resulting program income from the sale of the properties will be returned back to the HOME program to be used for other HOME eligible projects.

5. **On page 10 of the approved 2011-2012 Consolidated Annual Action Plan, in the paragraph just before “Rehabilitation” section, make the following (additions and/or deletions):**

~~Approximately \$823,710 of previously committed HOME funds will be carried over to spend in 2011-12. Approximately \$436,000 in 2011-2012 HOME funds is being proposed for the continuing operation of the City’s TBRA program \$843,000 of HOME funds will be spent on the City’s Tenant Based Rental Assistance (TBRA) Program for 2011-2012.~~

6. **On page 10 of the approved 2011-2012 Consolidated Annual Action Plan, under the section “Planning and Administration,” make the following (additions and/or deletions):**

~~Up to 10% of the total HOME grant allocation will be used for reasonable planning and administrative costs associated with the administration of the HOME program and other related federal requirements. Approximately, \$459,960 of previously committed administrative monies will be carried over to spend \$875,570 (including \$459,960 of carried over administrative monies from the previous year) will be available to spend in fiscal year 2011 2012.~~

7. **On page 13 of the approved 2011-2012 Consolidated Annual Action Plan, under the section “Neighborhood Stabilization Program (NSP2),” make the following (additions and/or deletions) at the end of the section, and before the section "Section 108 Program":**

Due to an unforeseeable slow down in the resale of the initial 33 properties, this has caused a delay in program income returning to the program in order to purchase the remaining homes to complete the program's goal of 64 total homes purchased, rehabilitated, and resold to income eligible home buyers by February 11, 2013. To resolve this issue, up to \$3,700,000 of HOME funds will be used to supplement funds for the acquisition of the remaining homes in order to meet program deadlines.

8. **On page 31 of the approved 2011-2012 Consolidated Annual Action Plan, under the sub-section “WelcomeHome Program” (second paragraph), make the following (additions and/or deletions):**

~~In 2011-2012, the City of San José will continue to administer the program which is designed to assist approximately eighty low-income first-time home buyers purchase new or resale homes. The Program will have a budget of approximately \$2 million \$1,900,000 of HOME dollars, jointly funded by Proposition 1C money and federal HOME funds.~~

9. **On page 32 of the approved 2011-2012 Consolidated Annual Action Plan, under the sub-section “Neighborhood Stabilization Program,” add the following (additions and/or deletions) at the end of the sub-section:**

When HOME funds used to assist in the acquisition of a property, that property will be resold to income eligible homebuyers earning no more than 80% of area median income as required by HOME regulations.

10. On page 66 of the approved 2011-2012 Consolidated Annual Action Plan, in Table 2A under the "HOME" heading in the "Year 2 (2011-12)" column, add the following (additions and/or deletions) at the end:

NSP2 Acquisition Assistance			31			
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11. On page 70 of the approved 2011-2012 Consolidated Annual Action Plan, add the following (additions and/or deletions) to "Action 3D.1":

Action 3D.1. Purchase of foreclosed properties and subsequent rehab and resale as affordable units (<u>HOME funds to be used for acquisition only</u>)	NSP/ <u>HOME</u>	# units assisted	32 <u>31</u>	DH-1,2,3
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END OF SUBSTANTIAL AMENDMENT