



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Corsiglia

SUBJECT: BEGIN PROGRAM GRANTS

DATE: March 19, 2012

Approved

Date

3-27-12

COUNCIL DISTRICT: 3 & 4
SNI AREA: 13th Street

RECOMMENDATION

Adopt a Resolution Authorizing the Director of Housing to accept Building Equity and Growth in Neighborhoods (BEGIN) funds 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. A \$4,000,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in the Pepper Lane (Phase 1) townhome development.
- b. A \$1,500,000 grant to fund downpayment assistance loans to first-time homebuyers purchasing in the proposed Westmount Square single family/townhome development.

OUTCOME

The City of San José will receive \$5,500,000 million 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 addition to providing families with housing opportunities, these funds will help stimulate the local housing market.

BACKGROUND

The BEGIN Program is funded by Proposition 1C, which was approved by the voters in 2006. The funds, which are managed by the State's Department of Housing and Community Development (HCD), are offered on a competitive basis to cities that have demonstrated that they have significantly reduced housing development cost to builders through various regulatory relief and development incentives such as modification of density standards,

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flexible parking standards, streamlined project review, and fee waivers or deferrals. Since the inception of the BEGIN Program, the Department of Housing has applied for and received over 18 competitive grants totaling over \$27,000,000. The City of San José is the largest beneficiary of BEGIN Program funds in the state.

The BEGIN grant will be used to assist approximately 65 first-time homebuyer households in the following new for-sale developments: (1) Pepper Lane; and (2) Westmount Square. HCD requires approval by the Council to accept these new funds. Upon Council approval, the Director of Housing will execute two new BEGIN agreements with HCD.

ANALYSIS

Upon approval of this recommendation, 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. All BEGIN loans are structured as 3% simple-interest loans with no monthly payment requirements for 30 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. The 2012 moderate income limits are shown below (subject to change annually):

Income Range	Household Size					
	1	2	3	4	5	6
Moderate-Income	\$88,200	\$100,800	\$113,400	\$126,000	\$136,100	\$146,150

Under the BEGIN Program, the City retains 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 low- or moderate-income persons or families.

NEW DEVELOPMENTS:

Prior to submitting its BEGIN application, the Housing Department researched for-sale developments that were in the advanced stage of obtaining building permit approval, under construction, or recently completed. After identifying candidate projects that could be completed and funded within the timeframe mandated by the state, staff contacted the developers of these projects to garner their interest in participating in the program. Through this process, the following two projects were selected. Funding applications were completed with the assistance of the developers and subsequently approved by the state.

Pepper Lane/Phase 1:

The first phase of Pepper Lane is a mix of 158 condominiums and townhomes. The project is located in City Council District 4 on Jackson Avenue and Berryessa Road. Construction is

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complete on the first few buildings and the developer (Pulte Homes) is awaiting the approval of BEGIN funds to begin offering to homebuyers. The sales price ranges from \$429,000 to \$589,000 depending on the size of the townhomes, which are two to four bedroom units with two to three and one-half bathrooms.

Over the next few years, the total project will include a total of 371 units and will have a commercial component along Berryessa Road. The City opted to apply for Phase 1 only so it could be eligible to apply again in future years for the additional phases.

Westmount Square:

Westmount Square is a proposed 60 unit project (30-attached and 30-detached) that will be located in the 13th Street Strong Neighborhoods Initiative (SNI) Area at East Mission Street/North 10th Street. The project will also be subject to the City's Inclusionary Housing Policy. The \$1,500,000 in BEGIN funds will be used to assist 18 homebuyers. There is the potential of combining the affordable homes under the inclusionary policy with the BEGIN assisted homes. The project is at the Final Map stage of the entitlement process and the developer is currently Arcadia Homes.

EVALUATION AND FOLLOW-UP

Upon approval of this memo, staff from the Department of Housing will work with HCD to negotiate and execute the BEGIN grant awards and related documents and amendments. Recommendations to recognize and appropriate the \$5,500,000 grant will be brought forward for Council approval as part of the 2012-2013 Proposed Operating Budget.

POLICY ALTERNATIVES

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

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

Pros: By accepting the funds, the City will be partnering with the two developers to provide home buying opportunities to low- and moderate-income households that otherwise may not be able to afford homes in San José.

Cons: Declining to accept the BEGIN funds will prevent significant financial assistance to first-time homebuyers in need of downpayment assistance.

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**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. 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 homes. Further, future BEGIN loan repayments may be utilized by the City to create a sustainable revolving loan program 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 April 10, 2012, 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 Project Sentinel, 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 and the City Manager's Budget Office.

FISCAL/POLICY ALIGNMENT

This recommendation is consistent with the City 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 and the CalHome Program for either home repair or down payment assistance.

COST SUMMARY/IMPLICATIONS

In 2011-2012, funds were appropriated and the existing funds are sufficient to meet the needs for down payment assistance loans for first-time homebuyers; therefore, no budget actions are being recommended as part of this memorandum. Recommendations to recognize and appropriate the \$5,500,000 of anticipated BEGIN grant funding from the California Department of Housing and Community Development will be brought forward for Council approval as part of the 2012-2013 Proposed Operating Budget.

BUDGET REFERENCE

The table below identifies the fund and appropriation proposed to provide down payment assistance loans for first-time homebuyers in 2011-2012.

Fund #	Appn #	Appn. Name	Total Appn		2011-2012 Adopted Operating Budget (Page)	Last Budget Action (Date, Ord No.)
448	3312	CalHome (BEGIN) Program	\$2,071,254		N/A	02/14/2012, Ord No. 29036

CEQA

Not a Project File No. PP10-068(a) Grant Application.

/s/
LESLYE CORSIGLIA
Director of Housing

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