



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Corsiglia
Sara L. Hensley
Paul Krutko

SUBJECT: SEE BELOW

DATE: June 9, 2004

Approved

Date

COUNCIL DISTRICT: Citywide

SUBJECT: APPROVAL OF AMENDMENTS TO THE CONSOLIDATED PLAN ANNUAL ACTION PLAN FOR FY 2004-05

RECOMMENDATION

It is recommended that the City Council adopt amendments to the FY 2004-05 Consolidated Plan Annual Action Plan to:

1. Authorize the submission of an amended 2004-05 annual Action Plan to the City's Community Development Block Grant Program (CDBG) for funding assistance from the Department of Housing and Urban Development (HUD) Brownfields Economic Development Initiative (BEDI) Grant application in the amount of \$2,000,000 and a Section 108 Loan guarantee in the amount of \$25,000,000 to assist in the acquisition of 74.87 acres of property located at 1125 Coleman Avenue.
2. Authorize the submission of a Section 108 Loan Guarantee application to assist with the purchase of the 74.87 acres of property directly west of the Norman Y. Mineta San Jose International Airport.
3. Set forth the City's plan to market and provide outreach for the American Dream Downpayment Initiative (ADDI) under the HOME Program section of the Action Plan.

BACKGROUND

On May 4, 2004, the San José City Council adopted the 2004-05 Annual Action Plan. The Action Plan was submitted to HUD for approval on May 14, 2004. After this date, it was determined that two amendments to the Annual Action Plan would be needed: one related to the proposed use of a Section 108 loan in the amount of \$25 million and a BEDI Grant in the amount of \$2 million to assist in the acquisition of 74.87 acres of property located at 1125 Coleman

Avenue and the other regarding further clarification of outreach and education efforts for the American Dream Downpayment Initiative (ADDI).

A Notice of Public Hearings regarding these proposed amendments was mailed out to over 330 individuals and organizations on May 24, 2004. Additionally, the Notice was published in the San Jose Post Record and Mercury News on May 25, 26, and 27, 2004. The 30-day public comment period began on May 28, 2004 and will end on June 28, 2004.

During the 30-day public comment period, the City will gather public comments related to these amendments. A matrix of the public input and the Administration responses will be forwarded to the Council as a Supplemental Memo one week prior to the June 29, 2004 Council meeting.

ANALYSIS

Section 108 Amendments

On May 18, 2004 the City Council authorized a Term Sheet and authorized staff to prepare a Purchase Agreement for the acquisition of 74.87 acres of land owned by FMC located at 1125 Coleman Avenue directly adjacent to and west of the Norman Y. Mineta San José International Airport.

The land is part of the former FMC industrial facility, which was closed in 1996. The purchase price of the property is approximately \$81 million. The proposed purchase, in the near-term, would assist the Airport in moving forward on the construction of the new Central Terminal and related projects. The City has a critical need for land for facilities to support implementation of Airport Master Plan projects. A portion of the property would be used for economic development purposes to create revenue generating uses for the City. In the long-term the City would have the opportunity to both support the Airport and lease the property to developers seeking to construct office and R&D projects, which could generate additional permanent revenue for the City.

The City is proposing to purchase all 75 acres of the property in two phases. Phase I consists of approximately 52 acres of land that is ready for use. Phase II consists of 23 acres of land that requires environmental review by the Department of Toxic Substance Control ("DTSC") prior to reuse of the land. Staff recommends that the Phase II portion of the Property be purchased with the assistance of a Section 108 Loan and BEDI grant and would be available for use by the City for short term economic development purposes including rental agency used car sales, recreational vehicle sales, motorcycle sales and courier and delivery services.

The Section 108 program is designed to facilitate economic development on the local level. The City of San José can borrow up to five times the City's Community Development Block Grant (CDBG) allocation. The City's annual allocation is approximately \$12.9 million; San Jose's total Section 108 capacity is \$69.5 million. The City and Agency have three current obligations utilizing the Section 108 program:

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- \$18 million -- Tropicana
- \$13 million -- CIM
- \$ 5.6 million -- Security, Letiticia and Eu

The remaining balance of Section 108 funds is approximately \$32.9 million. Staff is proposing a Section 108 loan in the amount of \$25 million to assist in purchasing the FMC property. A balance of approximately \$8 million in future borrowing capacity would remain. The term of the Section 108 loan would be 20 years.

The Section 108 program guidelines specify that the local allocation of CDBG funds will be taken to support debt service if the municipality cannot make debt service payments. A local government would have the option of providing an additional source of funds to avoid diminishing the area's CDBG allocation.

As security for the Section 108 loan, HUD will be provided with a deed of trust on the 23-acre parcel. To eliminate the possibility of default on the Section 108 loan, the City would have the option of using airport funds to provide a loan to the project to protect the City's CDBG funds, if required to support the project. Any such loans of Airport funds would be required to be repaid with interest at the prevailing rate in effect at the time the loan is made, and the loan would need to be repaid over a fixed term of years. In the event that a loan of Airport funds for this purpose is necessary, Airport staff would recommend a repayment term of not more than 15 years.

Staff has completed a conservative pro-forma providing a financial analysis of the purchase of the 23-acre Phase II Property. This long-term projection indicates the City will generate significant revenues for the City. Because it is likely to take 3-4 years to lease the property, there is a potential for cash flow to be limited in the early years of the project.

The FMC acquisition project meets the CDBG National Objective of benefiting low-and moderate-income persons through the creation of new jobs, stimulating the local economy and addressing a major economic goal of the community. The use of Section 108 and BEDI funds is eligible under 24 CFR 570.703 (i)(1), activities eligible under 570.203 – Special economic development activities.

American Dream Downpayment Initiative Amendments

As noted in the 2004-05 Annual Action Plan, the U.S. Department of Housing and Urban Development (HUD) recently introduced the American Dream Downpayment Initiative, which provides monies to entitlement jurisdictions for downpayment assistance for single-family homes and manufactured housing. For Fiscal Year 2004-05, the ADDI allocation to San José totals \$403,914.

The Housing Department is proposing amendments to the Action Plan to give more clarity to the City's plan to market the ADDI program and provide outreach. Additionally, the amendments describe the homebuyer education and counseling programs that will be offered to the ADDI participants by the Neighborhood Housing Services of Silicon Valley (NHSSV). The

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details of these plans are outlined in Attachment A. This attachment replaces page 31 of the Consolidated Plan Annual Action Plan 2004-05.

PUBLIC OUTREACH

On June 10, 2004, the Housing Advisory Commission (HAC) will hold a public hearing to gather feedback and input regarding the proposed amendments to the American Dream Downpayment Initiative. The CDBG Steering Committee will hold a public hearing on the Section 108 amendment on June 16, 2004 at City Hall.

COORDINATION

This report has been coordinated with the Budget Office, the Airport, and the City Attorney's Office.

CEQA

Not a project.

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Director of Housing

SARA L. HENSLEY
Director of Parks, Recreation and
Neighborhood Services

PAUL KRUTKO
Director, Office of Economic Development

Attachment