

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: UPDATES TO HOUSING
DEPARTMENT FY 06-07
BUDGET

DATE: August 3, 2006

Approved

Date

8/3/06

RECOMMENDATION

It is recommended that the City Council approve:

1. An Increase to Tax Increment Revenue of \$517,182;
2. An Increase to the Appropriation for Housing Loans and Grants of \$517,182;
3. An addition of one Housing Rehabilitation Inspector position; and
4. A deletion of one Office Specialist position and an addition of a Development Specialist position.

OUTCOME

The Housing Department budget will accurately reflect projected tax increment funds for FY 2006-07 and will have the resources necessary to fully implement future Project Alliance rehabilitation projects and address homeless issues.

BACKGROUND

In his March 2006 Budget Message, the Mayor recommended that the capital budget for the Housing Department be moved to August to coincide with the Redevelopment Agency budget deliberations. The City Council considered and approved the Housing Department's operating budget in June 2006, including all of the Housing Department's performance measures and most of the requested administrative budgetary actions.

ANALYSIS

Like the Redevelopment Agency, the Housing Department's budget is impacted by the economy and by the annual announcement by the County Assessor of property assessments, which determine the amount of tax increment available to the City for affordable housing activities. But, unlike the Redevelopment Agency or other City departments, the Housing Department does not fund capital projects. Because the Housing Department is a "public purpose lender," funds

are committed and spent when applications proposing projects are received, negotiated, and recommended for funding. As such, any project that the City may fund in any year is not known until private developers secure land and make the determination that they intend to seek City assistance to construct an affordable housing project, and the City completes its evaluation and underwriting process.

When developing its annual budget, the Housing Department, in consultation with the Budget Office, identifies the amount of funding that it will have for projects based on the revenues it expects to receive (including funds that may be borrowed against the increment), and the amount of fixed costs. The difference between revenues and these fixed expenditures is available to fund projects. When the Housing Department's operating budget was presented to the City Council in June, it was projected that \$44,000,000 would be available to fund large development projects.

On July 5th, the Santa Clara County Assessor's Office released its annual report documenting the assessed values for all real and business property in the County as of June 30, 2006. The report demonstrated a gradual growth pattern for the entire county, including a 6.83% growth rate in San Jose's Redevelopment Areas. Based on this recent information, the Housing Department is projecting an increase of \$517,182 in tax increment funds over the adopted FY 2006-07 Operating Budget, bringing the revised projection for FY 2006-07 to \$32,449,456. This additional \$517,182 will increase the Department's borrowing capacity by an estimated \$4.1 million to be used for development projects (at a projected borrowing rate of eight dollars to each dollar of tax increment.) The Department expects to issue bonds in FY 2007-08, and will utilize the additional tax increment at that time.¹

PROGRAM EXPENDITURES

The Department has several line items included in the Department's Low and Moderate Income Fund (443) Statement of Source and Use of Funds as described below and as shown in Attachment A.

Housing Loans, Grants, and Acquisitions

The Department expects to appropriate and/or spend \$44,517,182 in FY 2006-2007 for loans and grants to affordable housing projects. Some of the funding will be used to pay for construction draws and other uses for existing housing developments. Other funds will be committed to projects should the City Council take the actions recommended by the Department in upcoming City Council meetings. The remaining funds will be available for acquisition of surplus land and for award through the Department's Notice of Funding Availability Process.

¹ The Department has a line of credit to fund land acquisition, predevelopment, and construction draws. Bonds are issued to pay down the line once it has been fully committed; the line of credit is replenished at that time. The most recent borrowing was in June 2005, when the \$195.8 million Series 2005 Bond issue was completed, providing funding to refinance existing debt, and finance the development of 1,821 additional units. The Department is now drawing on its line of credit, and does not anticipate issuing bonds again until next fiscal year.

As of this date, we anticipate the following expenditures:

Progress Payments:	\$1,791,000
Committed Funds:	\$6,591,970
Expected Commitments in August 2006:	\$5,271,125
<u>Additional funds available for commitment through NOFAs:</u>	<u>\$30,863,087</u>
Total	\$44,517,182

More detail on the existing projects needing construction draws and other funds in FY 06-07 and projects that will be recommended for funding in August are included in Attachment B.

Because there are uncertainties in determining funding availability and demand for funds, the Department routinely requests appropriation adjustments when the proposed appropriation is too high or too low. In recent years the amount available for large development projects has varied from \$32 million to \$70 million.

Housing Predevelopment Activity

The Housing Department budget includes \$265,000 for expenses that the Department will incur related to evaluating potential surplus public lands for acquisition for affordable housing development. The evaluations include: project financial feasibility and analysis, appraisals, relocation consulting, land use and environmental analysis, and other activities. During the next fiscal year, Housing Department staff will engage required technical assistance to evaluate potential development of a State-owned parcel at Ford and Monterey Roads, alternative uses and feasibility for a parcel owned by the Housing Department on Evans Lane, and feasibility of a number of other sites owned by the City. These resources will also be used to evaluate other affordable housing land acquisition opportunities that may arise.

Teacher Loan Program

The Department has budgeted \$2,000,000 in Low and Moderate Income Housing Funds for the Teacher Homebuyer Program (THP). Additionally, the Department has budgeted \$2,000,000 in federal HOME funds for the Program.

Teachers earning less than 90% of the Area Median Income (AMI) are eligible to receive second mortgages of up to \$65,000. Teachers earning between 91% and 120% of AMI are eligible for THP loans of up to \$40,000. Based on the total funding available in FY 2006-07, the Housing Department estimates that a total of 70 teachers will be assisted, based on an average loan of \$57,000.

From FY 2002-03 through FY 2004-05, the Department spent \$8,254,500 on THP loans using funds from the Low and Moderate Income Housing Fund and assisted 245 teachers. Since the Program's inception, over 500 teachers have been assisted.

San Jose State THP

On January 10, 2006, the City Council approved the creation of a Faculty Homebuyer Program (FHP) for new faculty at San Jose State University modeled on the THP, and authorized the use of \$500,000 for the program. In addition to the City's contribution, SJSU will contribute \$500,000 to support the Program.

Because this is a new program, the Department does not have experience to determine the demand for program funds, the average loan amount required, or the number of teachers that might qualify for the loan product. Nevertheless, we are projecting that 16 loans will be made during FY 06-07 based on an average loan of \$62,500.

Loan Management

The Housing Department provides ongoing interim management of properties taken over through foreclosure or acquired for new affordable housing development. Staff monitors the properties to ensure that they are safe and secure. Currently, the Department owns the following properties: Casa Feliz (scheduled for transfer in September/August to First Community Housing), Sycamore Terrace at Almaden and Coleman (now negotiating with Barry Swenson Builder), and Evans Lane (negotiating with Satellite Housing, Inc.)

The frequency and extent of expenses related to these properties cannot be anticipated. However, the Department has appropriated \$500,000 for FY 06-07. In past years, the Department has spent between \$156,000 and \$410,000 per year for this purpose.

POSITION ADJUSTMENTS

The Housing Department is requesting the addition of one Housing Rehabilitation Inspector position to implement the successful Project Alliance program. This program provides funding for exterior improvements to existing multi-family developments in Strong Neighborhood Initiative areas. Current projects include: Underwood Apartments in Blackford SNI, Jeanne/Forestdale project in Five Wounds/Brookwood Terrace SNI, and housing rehabilitation in Greater Gardner SNI. Total funding for these projects exceeds \$1.75 million. The Housing Department is also targeting new CalHome funds for SNI areas. Although this program has grown substantially in the past two years, no additional staffing has been made available to implement the program. The cost of adding this position is approximately \$105,680 per year.

Additionally, the Housing Department is requesting the approval of a second budgetary action that will result in the creation of a Development Specialist position that will focus on homeless issues. In 2006, the City adopted a Ten-Year Plan to End Chronic Homelessness, joining hundreds of cities throughout the country in an effort to ensure that people living on the streets, and those living in shelters and other inappropriate living situations are adequately housed and provided with needed services. Current staffing for the City's homeless programs includes a portion of a Housing Planning and Policy Administrator, one full-time Development Officer and one full-time Development Specialist. A further increase in staffing is necessary to address this goal, and, without this additional staff effort, the City will continue to "manage" rather than

solve our homeless problem. The Department's request to delete a vacant Office Specialist I/II position and add a Development Specialist position to the Homeless Services program will provide critical resources to focus on addressing the problem of chronic homelessness. The total cost of this request is \$22,270 per year.

PUBLIC OUTREACH

The Housing Department's budget was reviewed as a part of the annual budget review process.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office, the Office of the City Attorney, and the Redevelopment Agency.

COST IMPLICATIONS

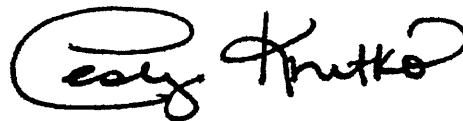
The additional tax increment will increase the Department's borrowing capacity up to \$4 million which will be available in the future for large development projects. The ongoing cost implications of the addition of the Housing Rehabilitation Inspector will be \$105,860 annually and the net increase resulting from the add/delete action will be \$22,270.

BUDGET REFERENCE

The impacted pages of the Proposed FY 2006-07 Budget are XI-46 and XI-47. Amendments to these pages are attached (Attachment A).

CEQA

Not a project.



LESLYE KRUTKO
Director of Housing

Attachment

For questions, please contact Leslye Krutko, Director of Housing at 535-3851.

LOW AND MODERATE INCOME HOUSING FUND (443)

Attachment A

STATEMENT OF SOURCE AND USE OF FUNDS

	<u>2004-2005</u> <u>Actual</u>	<u>2005-2006</u> <u>Estimated</u>	<u>2006-2007</u> <u>ADOPTED</u>	<u>Recom'd</u> <u>Change</u>	<u>2006-2007</u> <u>Modified</u>
SOURCE OF FUNDS					
Beginning Fund Balance					
Contingency Reserve			150,000		150,000
Reserve for Encumbrances	7,392,314	8,492,060	8,492,060		8,492,060
Unrestricted	<u>13,996,704</u>	<u>14,864,020</u>	<u>9,639,158</u>		<u>9,639,158</u>
Total Beginning Fund Balance	21,389,018	23,356,080	18,281,218		18,281,218
Revenue					
Loan Repayments	14,075,488	13,385,000	23,939,728		23,939,728
Interest	333,140	380,000	250,000		250,000
20% Tax Increment	29,945,042	29,368,373	31,932,274	517,182	32,449,456
Line of Credit	14,400,000	0	0		0
Net Bond Sale Proceeds	30,600,000	22,000,000	13,775,000		13,775,000
Miscellaneous Revenue	<u>512,894</u>	<u>6,000</u>	<u>5,000</u>		<u>5,000</u>
Total Revenue	89,866,564	65,139,373	69,902,002	517,182	70,419,184
TOTAL SOURCE OF FUNDS	<u>111,255,582</u>	<u>88,495,453</u>	<u>88,183,220</u>	<u>517,182</u>	<u>88,700,402</u>
USE OF FUNDS					
Expenditures					
Program Expenditures					
Hsg Loans, Grants, & Acq	32,863,436	46,400,000	44,000,000	517,182	44,517,182
Hsg Predevelopment Activity	33,577		265,000		265,000
Teacher Loan Program	880,000	400,000	2,000,000		2,000,000
San Jose State THP			500,000		500,000
Rental Rehab Prgm Projs	0				
Loan Management	<u>410,424</u>	<u>500,000</u>	<u>500,000</u>		<u>500,000</u>
Total Program Expenditures	34,187,437	47,300,000	47,265,000	517,182	47,782,182
Operating Expenditures					
Hsg Dept Personal Services	5,481,636	5,987,200	6,374,561		6,374,561
Hsg Dept Non-Personal/Equip.	810,395	849,699	1,025,724		1,025,724
Attorney Operations	463,554	535,542	608,516		608,516
City Mgr Operations	51,648	54,104	55,807		55,807
Finance Operations	161,353	177,807	192,127		192,127
Info Tech Operations	137,008	205,299	210,241		210,241
PBCE Operations	46,628	59,647	64,753		64,753
Public Works Operations	94,923	103,950	111,478		111,478
Overhead Reimb to Gen Fund	769,111	629,578	658,124		658,124
Wrks' Comp Claims & Pymts	44,530	7,800	7,800		7,800
City Hall Occupancy & FF&E	0	329,091	0		0
Total Operating Expenditures	<u>8,060,786</u>	<u>8,939,717</u>	<u>9,309,131</u>	0	<u>9,309,131</u>
Total Expenditures	42,248,223	56,239,717	56,574,131		57,091,313

LOW AND MODERATE INCOME HOUSING FUND (443)
STATEMENT OF SOURCE AND USE OF FUNDS

Attachment A

	<u>2004-2005</u> <u>Actual</u>	<u>2005-2006</u> <u>Estimated</u>	<u>2006-2007</u> <u>ADOPTED</u>	<u>Recom'd</u> <u>Change</u>	<u>2006-2007</u> <u>Modified</u>
Debt Service	14,527,905	13,600,000	19,500,000		19,500,000
Interest on Line of Credit	523,374	100,000	200,000		200,000
Line of Credit Payment	30,600,000	0	0		0
Transfers					
General Fund - City Hall O&M	0	274,518	0		0
Surplus Properties	0	0	120,000		120,000
City Hall Debt Service Fund	0	0	1,176,527		1,176,527
Total Transfers	<u>0</u>	<u>274,518</u>	<u>1,296,527</u>	<u>0</u>	<u>1,296,527</u>
Grand Total Expenditures	87,899,502	70,214,235	77,570,658		78,087,840
Ending Fund Balance					
Contingency Reserve	0	150,000	150,000		150,000
Reserve for Encumbrances	8,492,060	8,492,060	8,492,060		8,492,060
Reserve for Restricted Cash	0	0	0		0
Unrestricted	<u>14,864,020</u>	<u>9,639,158</u>	<u>1,970,502</u>	<u>0</u>	<u>1,970,502</u>
Total Ending Fund Balance	<u>23,356,080</u>	<u>18,281,218</u>	<u>10,612,562</u>	<u>0</u>	<u>10,612,562</u>
TOTAL USE OF FUNDS	<u>111,255,582</u>	<u>88,495,453</u>	<u>88,183,220</u>	<u>0</u>	<u>88,700,402</u>

Affordable Housing Projects Financed by the Housing Department**PROGRESS PAYMENTS**

Project	Year Funded	FY 06-07 Investment	Description	Units	Location
Sobrato House	2003	\$1,035,000	Relocation of the EHC Lifebuilders youth shelter. The newly constructed shelter will provide a mix of special needs housing including transitional shelter, youth emergency shelter, and housing for City Year volunteers.	19 units - 9 Transitional Units - 10 Emergency Shelter Beds	East William and South Third Streets
Lenzen on the Alameda Apartments – Operating Reserve	2001	\$311,000	New construction family housing development targeted towards San Jose public school teachers.	88 Units - 69 Low - 18 Very Low - 1 Manager	South Side of Lenzen Avenue
Vintage Tower – Permanent Financing	2003	\$445,000	Acquisition/Rehabilitation of mixed use building with 59 units with structured parking.	59 Units - 27 Low - 32 Very Low	Santa Clara and Fifth Street
Subtotal		\$1,791,000			

COMMITTED FUNDS

Project	Year Funded	FY 06-07 Investment	Description	Units	Location
Casa del Pueblo	2006	\$6,591,970	New construction of a mixed-use residential high rise senior housing development; is a part of the Block 8 Disposition and Development Agreement.	245 Units - 181 Low - 62 Extremely Low - 2 Manager	San Carlos and South First Street
Subtotal		\$6,591,970			

EXPECTED COMMITMENTS IN AUGUST 2006

Project	Year Funded	FY 06-07 Investment	Description	Units	Location
Sunset Square	2006	\$4,271,125	Financial restructure to ensure stability and long-term affordability for the 96-unit family housing development.	96 Units - 12 Low - 84 Very Low - 2 Manager	2080 Alum Rock Avenue
Casa Feliz	2006	\$1,000,000	New construction of special needs housing with over 80% of the units restricted to Extremely Low-income households and 35% of the units set aside for developmentally disabled persons.	60 Units - 7 Very Low - 52 Extremely Low - 1 Manager	525 South Ninth Street
Subtotal		\$5,271,125			

ADDITIONAL FUNDS AVAILABLE THROUGH NOFA PROCESS - \$30,863,087

