



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko
Larry D. Lisenbee

SUBJECT: SEE BELOW

DATE: February 19, 2008

Approved

Christine J. Shippey

Date

2-21-08

COUNCIL DISTRICT: 3
SNI AREA: N/A

SUBJECT: APPROVAL OF A FUNDING COMMITMENT FOR THE NEW SAN JOSÉ FAMILY SHELTER PROJECT LOCATED AT 686 NORTH KING ROAD

RECOMMENDATION

It is recommended that the City Council:

1. Adopt a resolution approving a conditional grant of up to \$6,291,000 to Family Supportive Housing, Inc., or its designee, for predevelopment, construction, and permanent financing of the 36-unit New San José Family Shelter project located at 686 North King Road to be made affordable to extremely low-income (ELI) households.
2. Adopt a resolution finding that the use of Redevelopment Tax Increment funds for the New San José Family project is of benefit to the Redevelopment Project Areas in San José.
3. Approve the following Appropriation Ordinance amendments in the Multi-Source Housing Fund (Fund 448) for 2007-2008 to:
 - a) Establish a new appropriation for the Family Shelter Project in the amount of \$4,000,000.
 - b) Decrease the Unrestricted Fund Balance by \$4,000,000.

OUTCOME

The City Council's approval of the recommended action will result in the development and construction of 35 rental units to house San José's emergency and short-term homeless population with incomes at or below 30% Area Median Income (AMI).

BACKGROUND

In 1987, the City made a loan to Concern For the Poor, Inc., now known as Family Supportive Housing, Inc. (FSH), in the amount of \$2,061,590, for the acquisition, construction and permanent financing of the San José Family Shelter, a converted warehouse building located at 1590 Las Plumas Avenue. The Family Shelter is the only emergency shelter facility in San José dedicated solely to serving intact families with teen-aged boys in order to minimize family dislocation.

FSH plans to build, own and operate a replacement shelter on a 0.50-acre portion of the new 25-acre, master-planned Newbury Park community located on the northeast corner of North King Road and Dobbin Drive that received PD rezoning approval on December 18, 2007. San José Transit Village LLC (SJTV) is the sponsor of the overall Newbury Park development, which will include between 800 and 1300 units.

The location of the new shelter will provide improved access to services and public transportation as well as access to stable, permanent housing opportunities for clients leaving the emergency shelter in an adjacent 94-unit affordable family rental project being developed by Charities Housing Development Corporation. A portion of the units in the permanent, affordable housing development will be available to FSH for families graduating from the shelter programs. In turn, families residing in the permanent, affordable housing will be eligible for a range of services provided by FSH.

Out of the requested total City funding commitment of \$6,291,000, the project has already received \$200,000 in predevelopment grants. One grant for \$100,000 was approved in December 2006 under the Director of Housing's Delegation of Authority. A second grant for \$100,000 was approved by the City Council on September 18, 2007. Also on September 18, 2007, the City Council approved the forgiveness of the 1987 loan plus accrued interest (a total of \$2,480,053) that helped finance the existing San Jose Family Shelter.

ANALYSIS

The proposed project will house 35 ELI households, including both single-parent and intact, two-parent families for up to 90 days.

The structure will be a single four-story building of approximately 33,048 square feet on top of a podium over at-grade parking. The units will vary in size, with the smaller studio units (400 sq. ft.) targeted to single parents with one or two children and the larger units (500 sq. ft.) with semi-private sleeping areas targeted to larger families with more children. Each unit will include a

HONORABLE MAYOR AND CITY COUNCIL

February 19, 2008

Subject: Approval of a Conditional Grant for the San José Family Shelter Affordable Housing Project

Page 3

private bathroom and a kitchenette containing a sink, microwave, small refrigerator, and storage cabinets. The units will be fully furnished and designed in such a way as to facilitate conversion to permanent affordable rental units in the future when the need for emergency shelters has been eliminated. Prepared hot meals and box lunches for the residents will be available in a common dining room to foster interaction and connection with the community groups that help with meal preparation. The project will contain one two-bedroom manager's unit that will be consistent with the future re-use of the building for permanent housing.

FSH intends to construct and operate a green building, hoping to achieve a LEED Silver certification. Some of the proposed green features include: exceeding Title 24 energy conservation standards by at least 15%; paints and adhesives with low or no Volatile Organic Compounds (VOC); Green Label certified flooring; a green (vegetative) roof; energy efficient heating and ventilation; water conserving fixtures; and use of the rain water run-off for landscape irrigation.

The new shelter is expected to cost approximately \$15.831 million. This cost is exclusive of the land cost of \$1,306,800 because the land will be donated to FSH by San Jose Transit Village, LLC, the master developer of the Newbury Park planned community. Sources of permanent funding for the project include:

<u>Funding Source</u>	<u>Amount</u>
City of San Jose	\$6,291,000
County of Santa Clara Affordable Housing Fund (AHF)	1,000,000
State Emergency Housing and Assistance Program (EHAP)	1,000,000
Federal Home Loan Bank – Affordable Housing Program (AHP)	540,000
Capital Campaign	5,000,000
Sale of Existing Shelter Site	<u>2,000,000</u>
TOTAL	\$15,831,000

Prior to the start of construction, FSH may request a bridge loan from the City to cover anticipated sales proceeds from the existing shelter since that facility will need to remain operating during construction of the new shelter.

Given the deeply affordable rents to be charged to homeless families (\$50/month), there is no prospect that a City loan could ever be repaid. For this reason, it is recommended that the City's funding be made in the form of a grant conditioned on the property being maintained as a shelter or housing for ELI households for a period of 75 years. Should the property convert to permanent housing that charges monthly rents consistent with ELI restrictions, the Housing Department will re-negotiate the terms of City funding to determine whether some repayment of the City's conditional grant would be warranted.

The proposed development was not reviewed under the criteria of the Project Selection System for the City's affordable housing development program since that system is designed to evaluate income-producing properties.

Specific business terms will be approved by the Director of Housing pursuant to the City's Delegation of Authority ordinance.

Redevelopment Project Area Findings

The recommended New San José Family Shelter is not located within a Redevelopment Project Area. Thus, it is required that the City make a finding, on behalf of the Redevelopment Agency, that any such project which utilizes Redevelopment funds is a benefit to redevelopment areas. Since housing for extremely low-income families and households is identified as vital to support the City's economic growth, much of which is planned to occur in Downtown and industrial redevelopment project areas, staff recommends that the City Council find the New San José Family Shelter project to be of benefit to those Redevelopment Project Areas.

EVALUATION AND FOLLOW-UP

The City Council will later be able to track the project's construction status through the Housing Department's quarterly construction reporting.

POLICY ALTERNATIVES

The Housing Department considered the following alternative before recommending approval of a funding commitment for the New San José Family Shelter project:

Alternative #1: The City could decline FSH's requested funding commitment.

Pros: The funds being requested could be used to finance other affordable housing projects and programs.

Cons: The Family Shelter provides the only emergency shelter facility in San José dedicated solely to serving intact families with teen-aged boys to minimize family dislocation. This specialized and critical program has outgrown its current site, cannot expand and could be put at risk. FSH would lose its \$1.0 million loan commitment from EHAP-CD for the construction of the new shelter. Without the City's financing commitment, the New San José Family Shelter project would be likely be infeasible.

Reason for not recommending: The San José Family shelter provides a specialized and critical service to the community and it is an important tool in alleviating chronic homelessness in San José. Furthermore, the target population of homeless families will benefit through the affordability term of 75 years, 20 years longer than the City's usual 55-year requirement.

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 item meets Criterion 1 related to the use of public funds equal to \$1 million or greater. This Council report will be posted to the City's website for the March 11, 2008 Council Agenda.

COORDINATION

Preparation of this report has been coordinated with the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This expenditure is consistent with the City's *Five-Year Investment Plan, Fiscal Years 2007/08-2011/12*, adopted by the City Council in June 2007, and with the City's *10-Year Strategy to End Homelessness*, adopted by the City Council in September 2003.

The City's strategy to end homelessness embraces the "housing-first" model, which places the homeless in permanent housing and provides them with services in place rather than the old practice of moving people from temporary shelters to transitional housing and then to permanent housing. However, it is recognized that there will continue to be a need for emergency shelter accommodations until permanent housing placements can be arranged. This may take a few days or longer, depending on the family situation and the housing choices available. The New Family Shelter will continue to play an important role as the only shelter in San José that allows teen-aged boys to stay with their families while permanent housing is being located. In addition, the New Family Shelter is designed so that units can be adopted to non-shelter use (e.g., housing for foster youth transitioning to independent living) once homelessness has been eradicated. Therefore, there will continue to be a role for Family Shelter, even as the community gains greater success in the quest to end homelessness.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION: \$6,291,000
2. COST ELEMENTS:
Predevelopment, Construction and Permanent Financing \$6,291,000
3. SOURCE OF FUNDING: Multi-Source Housing Fund (448)

There are two sources of revenue which will fund the recommended conditional grant for this project.

- The first source of revenue is the proceeds from the transfer of the former City warehouse site on Las Plumas Avenue to the Fire Department and the Environmental Services Department. The Housing Department originally took control of that property using supplemental affordable housing funds from the Redevelopment Agency's 80% Tax Increment. The funds received in exchange for transferring the site to Fire and ESD, plus accumulated interest, now total approximately \$5,908,000.
- The second source of revenue is fees paid by residential developers in redevelopment project areas in lieu of providing affordable units pursuant to the Inclusionary Housing Policy.

The entire \$5.9 million in sales proceeds from the Las Plumas warehouse is not currently available because some of it has been used for expenditures that will ultimately be repaid from reimbursable grants from the State and federal governments. Therefore, at the present time, the Housing Department is proposing to use only \$4.0 million from the warehouse proceeds and fund the remaining \$2.29 million portion of the conditional grant to the New Family Shelter from in-lieu fee revenues. Once the Department has been reimbursed by the State and federal governments for their grants, the remaining \$1.9 million in warehouse proceeds will be substituted for a like amount of in-lieu fee revenue under the Director of Housing's Delegation of Authority. Thus, the ultimate funding for the project will consist of \$5,908,000 of warehouse sales proceeds and \$383,000 of in-lieu fee revenue.

4. FISCAL IMPACT: No ongoing fiscal impact.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. For Contract	2007-2008 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
448	8999	Unrestricted Fund Balance	\$4,740,126	\$4,000,000	XI-64	10/16/07, 28143
448	3580	In-Lieu Fee	\$5,697,250	\$2,291,000	XI-64	2/12/08, 28241

HONORABLE MAYOR AND CITY COUNCIL

February 19, 2008

Subject: Approval of a Conditional Grant for the San José Family Shelter Affordable Housing Project

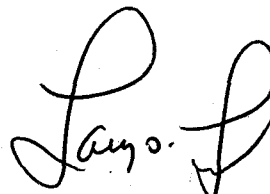
Page 7

CEQA

CEQA: Resolution No. 74196, File No. PDC07-015



LESLEYE KRUTKO
Director of Housing



LARRY D. LISENBEE
Budget Director

Attachment

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

HONORABLE MAYOR AND CITY COUNCIL

February 19, 2008

Subject: Approval of a Conditional Grant for the San José Family Shelter Affordable Housing Project

Page 8

Attachment 1
Development Timeline

December 18, 2007 PD Rezoning approved

March 11, 2008 Anticipated City Council approval of funding commitment

June 2009 Anticipated start of construction

August 2010 Anticipated completion of construction