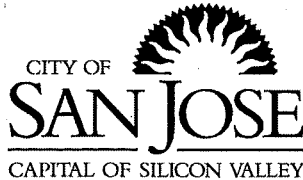


DEC 18 2008

by City Manager's Office



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Leslye Krutko

**SUBJECT:** IMPACT OF FREEZE ON STATE  
INFRASTRUCTURE FUNDS

**DATE:** December 18, 2008

Approved

Date

12/18/08

**COUNCIL DISTRICT:** Citywide

**SNI AREA:** All

## INFORMATION

### BACKGROUND

Yesterday afternoon, the Housing Department received notice from the State that the Pooled Money Investment Board (PMIB) voted to freeze \$3.8 billion in committed State funding for 1,985 infrastructure projects throughout California. The action was taken due to the State's inability to respond to its anticipated \$40 billion budget shortfall, its related cash shortage, and its immediate inability to issue bonds to fund operations and investments. As we understand, the State would divert available cash to fund crucial public services for as long as possible, including schools, public safety, health care, and other priority services.

As a result, no new infrastructure loan commitments would be made, no increases to existing commitments would be made, and no new disbursements would be made for existing loans. Exceptions would be made for specific projects if the PMIB determines that a funding cutoff would expose the State to unacceptable financial penalties or would prevent the State from paying required loan interest or administrative costs.

Included in the 1,985 projects are 24 commitments to housing projects and programs in San José, totaling just under \$59 million. This funding impacts new construction of multifamily developments, single family soft second mortgage funding, the City's rehabilitation programs, and several projects funded through the Workforce Housing Program. A listing of the impacted projects is attached; Housing Department staff is currently reviewing the projects to determine exact impacts, and will update this listing accordingly.

### ANALYSIS

The City's housing program will be impacted in several ways:

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- Multifamily Housing Development-- Multifamily housing projects for which the City and the State have committed funds will encounter delays. Construction may be slowed or halted, conversions to the permanent period financing will be delayed, and total development costs will increase. Developers will likely ask the City to fill resulting funding gaps. As an example, Paseo Senter II, a project developed by Charities Housing and CORE, was expected to close its permanent loan next week. This project, which is already fully occupied, will not be able to convert its permanent financing, resulting in increased interest costs. It is important to note, however, that occupants of Paseo Senter will not be impacted.

If additional funds are directed to address increased interest costs or other unanticipated costs, funding for some projects in the City's affordable housing development pipeline will be unavailable.

- Second Mortgages to First-Time Homebuyers-- The list includes approximately \$7.7 million in State mortgage funding commitments for the City's homeownership programs. Up to 260 home purchases could be adversely impacted by this funding shortage. To the extent possible, the Department would seek to advance funds from its own sources rather than delay home purchase closings for existing loan applicants. As an example, 24 loans for K&B's Monte Vista development on Auzerais are scheduled to close next week, enabling homeowners to move into their new homes in time for the holidays. Because the City has fronted the funds, and is awaiting repayment from the State, these owners will all be able to move in as anticipated. However, those homebuyers who are in the process but are not yet in the position to close their loans are likely to be in limbo pending State action to release funding. Should the City decide to advance additional funds without a clear understanding that the State would provide reimbursement, the City would experience losses due to increased interest charges, which would impact the City's ability to fund affordable housing developments anticipating City commitments.
- Small Projects—Some of the projects impacted were funded by the Workforce Housing Program, which funds a variety of projects. Projects impacted include: the construction of a child care center at the Georgia Travis One-Stop Homeless Prevention Center, the SNI Mobilehome Demonstration Program, and an SNI demonstration project in the Blackford Neighborhood. Additionally, CalHOME funding for the City's Housing Rehabilitation Program is also on the list.
- Reimbursements Owed to the City-- Certain State programs (such as the BEGIN First-Time Homebuyer Program, the CalHOME First-Time Homebuyer and Rehabilitation Program, and the Workforce Housing Program) require that the City be the applicant on behalf of certain projects. The City receives a commitment, advances General Funds to the project, and then seeks reimbursement from the State. If the State is unable to reimburse the City for advances, the City's cash flow is adversely impacted. In addition, the City pays interest on advanced funds it has borrowed to make cash available for operations. The attached chart details \$1,754,341 in unreimbursed funds, however the Housing Department estimates that the amount of funds currently advanced on behalf of the State but not yet reimbursed totals approximately \$3.1 million. The City's cost of interest on those funds is \$9,000 every 30 days.

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Additionally, other housing efforts in San Jose will be impacted. This includes:

- Agnews Replacement Housing/Bay Area Housing Plan—As part of the closure of Agnews State Hospital, the State provided funding for the relocation of Agnews residents to scattered site homes. PMIB planned to provide a \$100 million bridge loan for 61 homes already acquired. Without this loan, the California Housing Finance Agency will have to issue unrated bonds, which could carry interest rates of up to 25%.
- Housing Trust of Silicon Valley-- The list includes a \$2 million appropriation to the Housing Trust of Santa Clara, which uses its funds for the construction of affordable housing and housing for the homeless, and for first-time homebuyer assistance.

Completing construction of affordable housing projects and providing second mortgage assistance that enables moderate-income households to purchase a home are key to improving the City's economic position. These activities provide construction jobs, increase revenues related to construction supplies and housing-related expenses (appliances, furnishings, and other supplies), and ensure that existing townhouse/condominium units don't languish on the market. It is ironic that, at the same time the State is contemplating freezing these critical infrastructure improvements, the incoming federal Administration is requesting stimulus projects from local governments. The projects included on the PMIB list are the same category of projects the City included on its list of stimulus projects for the federal government.

As more information becomes available, we will keep the City Council apprised.

  
LESLYE KRUTKO  
Director of Housing

For questions, please contact Leslye Krutko at 408-535-3851.

Attachment



**STATE INFRASTRUCTURE FUNDS BEING WITHHELD IN SAN JOSE – DECEMBER 17, 2008**

**REIMBURSEMENT FUNDING—REHAB, HOMEBUYER AND OTHER PROGRAMS**

<b>PROJECT</b>	<b>DEVELOPER</b>	<b>USE</b>	<b>AWARD</b>	<b>AMT CITY ADVANCED</b>	<b>NOT YET REIMBURSED</b>
Sycamore Terrace	Barry Swenson	Homebuyer Loans	\$510,000	\$0	\$0
The Works	Barry Swenson	Homebuyer Loans	\$420,000	\$30,000	\$30,000
Alma Gardens (fka Villa Almendra)	Neighborhood Housing Services of Silicon Valley	Homebuyer Loans	\$510,000	\$120,000	\$120,000
Workforce Housing Funds (2007)		• SNI Mobilehome Demo	\$300,000	\$0	\$0
		• One-Stop Childcare	\$150,223	\$0	\$0
		• Blackford Neighborhood	\$250,000	\$0	\$0
Workforce Housing Funds (2006)		• Jeanne Avenue	\$79,087	\$77,731	\$30,657
		• Richmond Menker	\$25,917	\$21,981	\$21,981
		• One-Stop Center Rehab	\$100,000	\$60,961	\$60,961
		• Georgia Travis Repairs	\$60,000	\$60,000	\$25,500
		• Curb Cuts	\$600,000	\$600,000	\$600,000
		• Casa Feliz Photovoltaics	\$150,000	\$0	\$0
		• Gish Photovoltaics	\$163,155	\$163,155	\$0
		• Ohlone/Chynoweth Photovoltaics	\$40,242	\$10,325	\$0
City of San José		Single Family Rehab	\$750,000	\$655,242	\$655,242
City of San José		Single Family Rehab & Homebuyer Loans	\$1,000,000	\$600,000	\$0
San Carlos Townhomes	ROEM/CORE	Homebuyer Loans	\$480,000	\$150,000	\$0
Modern Ice	Taylor Woodrow	Homebuyer Loans	\$1,200,000	\$280,000	\$210,000
Tierra Encantada	Community Housing Developers	Homebuyer Loans	\$360,000	\$0	\$0

PROJECT	DEVELOPER	USE	AWARD	AMT CITY ADVANCED	NOT YET REIMBURSED
One East Julian	Regis Homes	Homebuyer Loans	\$240,000	\$60,000	\$0
Tamien Place	Barry Swenson	Homebuyer Loans	\$720,000	\$0	\$0
Neighborhood Housing Services of Silicon Valley	Various	Homebuyer Loans	\$1,000,000	TBD	TBD
Monte Vista	KB Homes	Homebuyer Loans	\$2,280,000	\$1,120,000	\$0
Second & Santa Clara	Unknown	Unknown	\$450,000	Unknown	Unknown
		<b>TOTALS</b>	<b>\$11,838,624</b>	<b>\$4,009,395</b>	<b>\$1,754,341</b>

## DIRECT PROJECT LOANS

PROJECT	DEVELOPER	USE	AMOUNT	TIMING/COMMENT
Fourth Street Apts.	First Community Housing	Construction/Permanent Grant and Permanent Loan	\$1,513,561 and \$8,789,846	Construction loan anticipated to close between March and August 2009. Additionally, current budget gap of \$5,000,000 because CalHFA can't issue bonds.
Casa Feliz	First Community Housing	Permanent Loan	\$7,000,000	Construction underway. Anticipate permanent loan closing in Spring 2009.
Paseo Senter Family Housing (Phase II)	Charities Housing	Permanent Loan	\$9,000,000	Planning to convert to permanent loan on 12/23/08.
Paseo Senter Family Housing (Phase I)	Charities Housing	Permanent Loan	\$10,500,000	Planning to convert to permanent loan in April-May of 2009
Family Supportive Housing (New Family Shelter)		Construction/Permanent Grant	\$1,000,000	In predevelopment stage, with construction expected to start in mid 2009
Kings Crossing	Charities Housing and CSJ	Construction/Permanent Grant	\$4,495,840	Expected to start construction in Spring 2009
Third Street Dev.	Global Premiere Development	Construction/Permanent Loan	\$1,688,000	No City funds; Construction start not known
Belovida @ Newbury Park	CORE	Construction/Permanent Loan	\$3,123,330	Expected to start construction in Spring 2009
Delmas Avenue	Habitat for Humanity	Homebuyer Loans	\$24,000	Not yet under construction.
<b>TOTAL</b>			<b>\$47,134,577</b>	