



COUNCIL AGENDA: 5/20/14
ITEM: 4.3

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Corsiglia

**SUBJECT: FUNDING COMMITMENT FOR
CREEKVIEW INN APARTMENTS
REHABILITATION PROJECT**

DATE: April 28, 2014

Approved

Date 5/2/14

COUNCIL DISTRICT: 4

RECOMMENDATION

It is recommended that the City Council adopt a resolution:

1. Approving a funding commitment to King Road Associates (KRA), a California Limited Partnership, for a conditional grant of up to \$920,984 for the rehabilitation of Creekview Inn Apartments, located at 965 Lundy Avenue, to provide ten studio apartments for extremely low-income (ELI) homeless individuals referred by the City;
2. Authorizing the Director of Housing, or designee, to set the specific business terms and negotiate and execute all documents necessary to implement the rehabilitation, Project-Based Rental Assistance (PBRA) and operating subsidy, including, but not limited to, applications, agreements, amendments, and payment requests, which may be necessary in connection with the rehabilitation grant, rental assistance, and operating subsidy.

OUTCOME

Approval of the recommended action will provide subsidized studio apartments needed to house ten homeless encampment residents.

BACKGROUND

The Housing Department and its partners have found that individuals experiencing homelessness have a difficult time, even with a subsidy in hand, securing apartments in San José. The top barriers to renting an apartment are the high cost of housing in our region and the very low vacancy rate. When given a choice between someone with decent credit, no eviction history, no criminal background, steady employment, and/or other "attractive" renter characteristics, and

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someone with little to no employment, poor credit, and/or other barriers, most landlords choose the former.

On September 1, 2013, the Department issued a Notice of Funding Availability (NOFA) for a newly-created Homeless Housing Program (HHP), which provides grants for the acquisition, development, or rehabilitation of projects that serve ELI homeless persons (with incomes at or below 30% of Area Median Income (AMI), or up to \$22,300/annum in 2014) for five years. One of the key provisions of the HHP is that participating agencies agree to relax tenant screening criteria for homeless persons who may have a poor or nonexistent credit history, may be unemployed, do not have a recent rental history, and/or may have a record of even minor criminal offenses – factors that can bar homeless persons from qualifying for rental housing. In addition to the capital funding, the NOFA also offered a limited-term rental assistance funds and operating subsidies. The operating subsidy – a difference in rent between 30% of 30% AMI and 30% of 40% AMI – was included to provide an extra incentive for property owners to apply. Applications in response to the NOFA were due on September 20, 2013.

First Community Housing (FCH) submitted an application on behalf of KRA, the limited partnership that owns Creekview Inn and for which FCH is the managing general partner. The application indicated that KRA/FCH would relax its standard tenant screening criteria for ten ELI studio apartments for homeless individuals. Other responses to the NOFA included: HIP/Abode's application to fund 10 scattered site properties; and InnVision's proposal to fund its Hester Apartments and its Julian Street Inn. While InnVision's properties did not meet all the conditions of the NOFA, staff will bring forward a separate funding commitment request for the HIP/Abode properties, which was successful in the funding competition.

Creekview Inn was built in 1999, funded primarily by equity derived from the sale of 9% Low Income Housing Tax Credits (LIHTCs) and a City loan of 20% tax increment funds. The property is just south of Berryessa Road, and is across Penitencia Creek from the BART station currently under construction near the San José Flea Market. Creekview Inn is already subject to an affordability restriction. It consists of 25 studio apartments, of which ten are restricted to extremely low-income households and 14 are restricted to very low-income households, and one manager's apartment is unrestricted. The ten ELI studio apartments share five bathrooms, while the remaining apartments each have a private bathroom. The rents on these ELI apartments are currently capped at \$534 per month (after a \$24/month utility allowance). The alternate tenant screening criteria to be used in agreement per this NOFA award will pertain to the ten existing ELI units.

ANALYSIS

Construction Project

The City will provide funding for the rehabilitation of Creekview Inn through a combination of tax exempt redevelopment bond funds refunded to the City last year when the Villa San Pedro project was re-financed, and funds from the West San Carlos project that were returned to the

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City. Because these funds are housing assets under Community Redevelopment Law, their use must comply with the rules for Low and Moderate Income Housing Asset funds.

The proposed scope of work at Creekview Inn consists of the following primary elements:

- Install five new bathrooms so that each of the ten ELI apartments has a private bathroom.
- Replace 38 exterior windows, including re-stuccoing/re-painting of exterior wall areas around those window replacements.
- Make various improvements to the lobby and interior hallway areas.
- Replace landscaping and an accessibility ramp from the building to the rear yard area.
- Install additional exterior security lighting and a security camera.

Because the project involves rehabilitation of more than eight apartments, the work will be subject to the City's prevailing wage requirements.

The ten ELI apartments will begin being made available to homeless persons referred by the City, or its designee, over a period of approximately one year consistent with vacancies that occur in the project's normal turnover.

Project Based Rental Assistance and Operations Funding

The Department is recommending that \$105,000 be used to fund one year of Project Based Rental Assistance (PBRA) and operating subsidies for the ten apartments at the Creekview Inn. Should funding be approved in the FY 2014-2015 Proposed Budget, the project will receive an additional year of PBRA and operating subsidies. Funding for this use will come from the \$3.67 million included in the 2013-2014 Adopted Budget, an amount which included \$2,000,000 to provide supportive housing to residents of a targeted encampment.

Residents housed at Creekview Inn will not meet the definition of "chronically" homeless that is being used by the Housing 1000 Campaign spearheaded by Destination: Home. Rather, the targeted encampment residents will have less severe disabilities, if any, and are more likely to be employable after stabilization in housing, but will nonetheless be provided case management services to assist in achieving that stabilization. The expectation is that these individuals will become employed within 12 months after being housed, and within a two years will be able to afford to pay rent at \$534 per month or higher (ELI rents).

The PBRA will fund the difference between 30% of the tenant's income or \$20, whichever is higher, and the ELI maximum housing cost (rent plus utilities). The maximum rent-plus-utility subsidy provided by the PBRA would be \$538 per month. The slight difference (\$4) between the typical maximum ELI rent and the PBRA payment will serve as a very small incentive to the owner. A landlord operating subsidy will be also be available equal to difference in rents set at 30% and 40% of AMI for a studio apartment, approximately \$181 per month.

In addition to the agreement executed by the City and KRA for the rent and operating subsidy, the City may require KRA to execute a promissory note and a deed of trust to secure the City's grant. Because the 10 ELI apartments are already restricted at this income level, no new affordability restrictions need to be recorded on the property.

The HHP program is but one element of the strategy to address the objectives of the Place-Based Rapid Re-Housing Program. Separate contracts with a Service Administrator to provide case-management and employment services to the homeless clientele and with a Subsidy Administrator to manage the PBRA and operating subsidy parts of the strategy have been awarded.

EVALUATION AND FOLLOW-UP

The Housing Department posts periodic reports on the status of its subsidized construction projects on its website, www.sjhousing.org. If approved, the Creekview Inn rehabilitation project will be included in these reports.

POLICY ALTERNATIVES

The following alternative was considered in determining the actions recommended in this report:

Alternative #1: *Deny the recommended funding commitment.*

Pros: The funds being recommended could be used for other affordable housing projects.

Cons: The tax-exempt bond proceeds from Villa San Pedro must be fully expended with 24 months of the City's receipt, which were received in late December 2013.

Reason for not recommending: Rehabilitation of existing apartments is the quickest way to create housing for homeless individuals and households.

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)

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- ❑ **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 report will be posted to the City Council Agenda website for the May 13, 2014 meeting.

COORDINATION

Preparation of this memorandum was coordinated with the City Manager’s Budget Office and the Office of the City Attorney.

FISCAL/POLICY ALIGNMENT

The recommended action is consistent with the objective of ending homelessness in the City’s *Five-Year Consolidated Plan FY 2010-15*, adopted by the City Council on May 4, 2010.

BUDGET REFERENCE

The table below identifies the funds and appropriations proposed to fund the commitments recommended as part of this memo.

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	2013-2014 Adopted Budget (Page)	Last Budget Action (Date, Ord. No.)
346	0070	Housing Loans and Grants	\$13,000,000	\$796,495	XI-58	10/08/2013 Ord. 29320
448	2074	Capital Grant Program	\$4,775,000	\$124,505	XI-73	6/18/2013 Ord. 29271
001	2062	Homeless Rapid Re-Housing	\$2,000,000	\$105,000	IX-21	6/18/2013 Ord. 29271

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CEQA

Exempt, File No. PP13-108.

/s/

LESLYE CORSIGLIA

Director, Housing Department

For questions, please contact Jacky Morales-Ferrand, Assistant Director of Housing,
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