



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko
Director of Housing

SUBJECT: SEE BELOW

DATE: January 3, 2007

Approved

Leslye Krutko

Date

1/8/07

COUNCIL DISTRICT: 5
SNI AREA: N/A

SUBJECT: APPROVE A REFUND OF CONSTRUCTION LOAN INTEREST IN THE AMOUNT OF \$16,917 TO KETZAL COMMUNITY DEVELOPMENT CORPORATION RELATED TO THE LAS MARIPOSAS FOR-SALE AFFORDABLE HOUSING PROJECT

RECOMMENDATION

It is recommended that the City Council adopt a resolution approving a refund of construction loan interest in the amount of \$16,917 to Ketzal Community Development Corporation (KETZAL), borrower for the Las Mariposas For-sale Affordable Housing Project located at 2177 Alum Rock Avenue, San José.

OUTCOME

Reimburse the developer for expenses that exceeded budget beyond the developer's control.

BACKGROUND

On February 24, 2004, the City Council approved a construction loan in the amount of \$4,181,662 to Ketzal Community Development Corporation (KETZAL) for the development of the 66-unit Las Mariposas project, a for-sale affordable housing project targeted to moderate and lower-income home buyers. All sixty-six units of the project have been sold and the City's construction loan of \$4,181,662 was fully paid off on July 21, 2006.

KETZAL a subsidiary of the Mexican-American Community Services Agency, Inc. (MACSA), has requested a refund of a portion of the construction loan interest in the amount of \$16,917. This interest is in excess of the amount budgeted that accrued due to delays in sale of the units, in part due to the complexities and additional subordinate financing required to assist low-income homebuyers.

ANALYSIS

MACSA is a community-based nonprofit corporation that develops rental and for-sale affordable housing in San José. MACSA originally projected all units to close no later than October 2005; however, for reasons beyond the developer's control, some units did not close until July 2006. The project took longer than anticipated to complete due to the fact that buyers were low-income rather than moderate-income, therefore necessitating an average of seven loans to close per household. In addition, the bank administering the project's Affordable Housing Program (AHP) mortgages through the Federal Home Loan Bank (FHLB) required several iterations of loan documents to comply with their requirements and those of the FHLB in closing the final five units. The additional time taken in documenting the AHP loans generated significant additional interest charges on MACSA's City construction loan. Therefore, the Department proposes to waive interest charges on the loan for the period of June 15, 2006 through July 21, 2006, which would result in an interest refund of \$16,917.

POLICY ALTERNATIVES

To arrive at this proposal staff analyzed the following option:

Alternative #1: Deny MACSA's request for a refund.

Pros: The City could use the funds towards developing new units rather than refunding interest on an existing project.

Cons: Reimbursing MACSA for interest costs will reduce the financial burden for this nonprofit and will assist them in pursuing future projects.

Reason for not recommending: The Department wants to help MACSA reach its goal to build more affordable units for low-income families.

After considering this alternative, Housing Department staff opted to seek the City Council's approval for this refund because the developer made its best efforts to close Las Mariposas timely, and will use the refund to further the City's affordable housing goals.

PUBLIC OUTREACH

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 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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- **Criteria 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 does not meet any of the criteria above, as the recommended action does not involve the use of public funds equal to \$1 million or greater, a new policy, or proposed changes to service delivery or programs.

This report will be posted to the City's website for the January 23, 2007 City Council Agenda.

COORDINATION

Preparation of this memorandum was coordinated with the Office of the City Attorney.

FISCAL/POLICY ALIGNMENT

The recommended action is consistent with the Housing Department's Five-Year Investment Plan, Fiscal Year 2002-07, concerning the Department's housing production goals.

CEQA

CEQA: Negative Declaration (PDC 99-12-096)



LESLYE KRUTKO

Director of Housing

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