



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: February 7, 2007

Approved

Ray Wines

Date

2/13/07

COUNCIL DISTRICT: 3
SNI AREA: N/A

SUBJECT: PUBLIC HEARING FOR APPROVAL OF A DISPOSITION AND DEVELOPMENT AGREEMENT FOR THE TRANSFER AND CONVEYANCE OF CITY-OWNED PROPERTY AT THE SOUTHEAST CORNER OF MONTGOMERY AND JULIAN STREETS TO INNVISION THE WAY HOME, OR AN AFFILIATED ENTITY, FOR CONTINUED USE AS AFFORDABLE HOUSING

RECOMMENDATION

It is recommended that the City Council hold a public hearing and adopt a resolution:

- a) Approving a Disposition and Development Agreement (DDA) between the City of San José and InnVision The Way Home, or an affiliated entity, for the transfer of the City-owned underlying fee title to InnVision for the Julian Street Inn homeless shelter, located at the southeast corner of Montgomery and Julian Streets, for the amount of \$860,000 in the form of a conditional loan secured by the fee; and
- b) Converting a \$140,000 City loan that is secured by a leasehold interest on said property to be included in the \$860,000 conditional loan.

OUTCOME

The transfer of the subject City-owned property will allow InnVision to accept a \$500,000 building rehabilitation grant from the State of California and will extend the extremely low-income (ELI) affordability restriction on the site for an additional 55 years.

BACKGROUND

In 1987, the Redevelopment Agency purchased the subject property from the City for \$344,240 financed by the Low- and Moderate-Income Housing Fund (20% Fund) and subsequently

executed a dollar-a-year lease with Housing for Independent People (HIP) so that HIP could construct a homeless shelter for 70 mentally ill adults on the site, known as the Julian Street Inn. After the formation of the Housing Department in 1988, the Department made a \$140,000 loan to HIP to cover cost over-runs on the construction of the shelter. This loan was secured by a Deed of Trust recorded on the title to the leasehold interest.

In 1997, after HIP had declared bankruptcy, title to the leasehold interest was transferred to InnVision, and InnVision assumed the \$140,000 loan. Thus, the Redevelopment Agency and the City have expended a total of \$484,420 out of the 20% Fund that is related to proposed transfer.

In 2006, InnVision received a commitment for a \$500,000 grant from the California Department of Housing and Community Development (HCD) to make renovations and repairs to the shelter. However, a condition of that grant is that the recipient be the owner of the underlying fee title of the property to be rehabilitated. For this reason, the Housing Department is recommending that the underlying fee title be transferred to InnVision.

PROJECT DESCRIPTION

The subject DDA addresses the transfer of the following property, which is currently owned by the City of San José and is developed, on a leasehold interest, with 12,400 square-foot homeless shelter built in 1989 and a storage warehouse built in the 1920s:

<u>Location</u>	<u>Acreage</u>	<u>No. of Shelter Beds</u>
Southeast corner of Montgomery and Julian Streets	0.395	70

The City is proposing to transfer the property to InnVision The Way Home, a nonprofit organization, for continued operation of the existing homeless shelter or for future conversion to permanent housing units for extremely low-income persons and households earning less than 30% of Area Median Income (AMI).

PROJECT BUDGET AND ANALYSIS OF THE TRANSACTION

A. Summary of Proposed Transaction

The conveyance of the property to InnVision will be accomplished by a DDA in consideration for 55 years of affordability to extremely low-income households. Additionally, an outstanding City loan of \$140,000 on the property will be converted to be part of the proposed conditional loan. No outlay of City funds beyond the \$484,240 already expended is anticipated for the rehabilitation or redevelopment of the property.

B. Housing Development Budget and Sources of Funds

The total cost to rehabilitate the shelter is estimated to be \$500,000. InnVision will finance this cost through a grant from HCD.

C. Financial Analysis and Restricted Expense Levels

The proposed transaction involves the fee transfer by grant deed of City-owned land. The current market value of the underlying fee title of \$720,000 was determined by an appraisal prepared by Hulberg and Associates, dated December 2006. The land value plus the outstanding \$140,000 loan, or a total of \$860,000, will be in the form a conditional loan, with a zero-percent (0%) interest rate, secured by a deed of trust. The condition of the loan will be that the property be used to house ELI persons or households for a period of 55 years, at which point it will be forgiven.

The proposed transaction involves the fee transfer by conditional loan in the amount of \$860,000. The transaction is essentially the same as if the City were to be making a conditional grant in the amount \$860,000 to the developer for the acquisition of the site. The consideration for the transfer of City-owned property with a forgivable loan is the long-term provision of housing affordable to ELI persons or households.

The recommended conditional loan for the Julian Street Inn is consistent with the City's practice of financing other homeless shelters. Since homeless shelters generate virtually no cash flow, they cannot support any debt.

PUBLIC OUTREACH/INTEREST

- *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)*
- *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)*

Although the recommended action does not meet any of the above criteria, this report will be posted on the City's website for the February 27, 2007 City Council agenda. Additionally, notice of this public hearing on the DDA will be published in the San José Mercury News on February 12, 2007 and February 19, 2007. Those notices will advise the public that a Summary Report on the proposed transaction, prepared by Keyser Marston Associates, will be available for

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inspection at the Office of the City Clerk and at the Housing Department during normal business hours in the two-week period prior to the public hearing.

COORDINATION

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

CEQA

CEQA: Exempt (PP07-024)



LESEYE KRUTKO

Director of Housing

Attachment

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

