

November 17, 2009

To: Honorable Mayor and City Council  
CC: Redevelopment Agency  
200 E. Santa Clara Street  
San Jose, CA 95113

**RE: PROPOSED REDEVELOPMENT AGENCY BUDGET**

Dear Mayor and City Council:

Recommendation:

The Housing and Community Development Advisory Commission recommends that the City Council should not approve the draft San Jose Redevelopment Agency (RDA) budget proposal to borrow \$75 million from the Housing Department Fund in order to pay the \$75 million takeaway imposed by the State. The RDA's current proposal regarding the Housing Fund would create irreversible damage on the Housing Department's ability to help finance new affordable housing for the next five years, and therefore we strongly oppose the RDA's request to fund the State's takeaway exclusively through the use of Housing Department funds.

While we recognize that the RDA faces tough budget decisions this year due to the State's decision to pull \$75 million dollars from the Redevelopment Agency, and while we recognize that the Housing Department should shoulder a fair share of the financial burden imposed by the State's takeaway, we recommend that the economic burden should be shared equitably among the various stakeholders and that the RDA and the City Staff should look at a range of alternatives before deciding to pull all \$75 million solely from the Housing Department.

Analysis:

The HCDC met in public session on November 12 and commissioners unanimously agreed to the following set of guiding principles and associated recommendations/mitigation measures, which should be the foundation for any RDA decision regarding how to use the Housing Fund:

Whereas 20% of the tax increment in Redevelopment Areas is mandated by the State of California to meet the need of affordable housing, and

Whereas the City of San Jose has determined through data analysis that there is a strong need for affordable housing at the various levels of extremely low, very-low, low- and moderate income levels, and

Whereas the City of San Jose Housing Department has a long history of success in financing high quality affordable housing projects, and

Whereas the ABAG Regional Needs Allocation specifies a need for approximately 19,000 affordable housing units in the next five years and this goal would not be met without Housing Fund dollars,

Whereas the City of San Jose Housing Department has a list of committed affordable housing projects that would not likely be built if financial commitments were pulled at this stage, and

Whereas the Redevelopment Agency should recognize its role is to not only invest in commercial economic development projects but also to invest in affordable housing projects that create construction jobs and provide shelter for lower and moderate income workers throughout San Jose, and

Whereas the Redevelopment Agency budget should recognize that affordable housing is a community priority and need, and

Whereas approximately 1,600 units would be stalled if the RDA borrows \$75 million from the Housing Fund, and

Whereas a 100% takeaway from any City department is not equitable, and the burden of the State's takeaway should be shared fairly by all stakeholders who benefit from the RDA funds, and

Whereas the \$21 million extra in State takeaway should not be an issue or option as it is behind us, and

Whereas the lack of Housing Funds for the next five years will cause an unwanted ripple effect on other sectors, such as affordable housing services, in the community, and

Whereas the RDA's proposal to borrow \$75 million from the Housing Fund would damage the Housing Department's ability to borrow from lenders in the next five years, and

Whereas developers often leverage Housing Department funds to obtain additional financing from other lenders, and it is estimated that \$165 million of such funds would be lost to San Jose's future affordable housing projects if this RDA proposal were approved,

Therefore, The HCDC recommends that the City Council should not approve the draft RDA budget proposal to borrow \$75 million from the Housing Department Fund in order to pay the \$75 million takeaway imposed by the State. The RDA's current proposal regarding the Housing Fund would create irreversible damage on the Housing Department's ability to help finance new affordable housing for the next five years, and therefore we strongly oppose the RDA's request to fund the State's takeaway exclusively through the use of Housing Department funds.

While we recognize that the RDA faces tough budget decisions this year due to the State's decision to pull \$75 million dollars from the Redevelopment Agency, and while we recognize that the Housing Department should shoulder a fair share of the financial burden imposed by the State's takeaway, we recommend that the economic burden should be shared equitably among the various stakeholders and that the RDA and the City Staff should look at a range of alternatives before deciding to pull all \$75 million solely from the Housing Department.

Mitigation Measures:

In order to reduce the degree of harm to the Housing Department's ability to provide gap financing to affordable housing developers in the next five years, the HCDC further recommends the following mitigation measures regarding any proposed RDA borrowing from the Housing Fund to cover the State debt.

1. The RDA budget proposal should incorporate a flexible borrowing strategy in terms of the Housing Fund.
2. The RDA budget proposal should ensure that the Housing Department has the necessary funds to preserve current commitments to affordable housing developers. There are many projects currently in the pipeline, and it would cause irreversible damage to cut off funding midstream to these affordable housing developers.
3. The RDA budget proposal should ensure that essential housing services continue to be provided by the Housing Department. These include, but are not limited to, housing rehabilitation and teacher/faculty affordable housing programs.
4. The RDA budget proposal should contain provisions concerning the payback of Housing Funds in a timely manner as soon as funds are available. This payback should include all borrowing costs that accrue to the Housing Department, including interest and principal for the loan. Interest should be at a fair market value.
5. The RDA budget should consider a more proportional and fair take from the Affordable Housing Fund. It is understood that affordable housing will need to contribute toward a solution, but it shouldn't shoulder the entire State take-away of \$75 million. Instead, the affordable housing contribution should be consistent and reflective of its current proportional receipt of tax increment.

Thank you for your time and consideration of the HCDC's recommendations.

Sincerely,



Bonnie Mace

Chair, Housing and Community Development Advisory Commission