U.S. Department of Housing and Urban Development
San Francisco Regional Office - Region IX
600 Harrison Street
San Francisco, California 94107-1387
www.hud.gov
espanol.hud.gov

COPY

OCT 3 - 2014

Ms. Leslye Corsiglia
Director, Housing Department
City of San Jose
200 E. Santa Clara Street
San Jose, CA 95113

Dear Ms. Corsiglia:

SUBJECT: Monitoring Results
San Jose Downtown Reinforced Masonry (URM) Retrofit and Historic Renovation Project
Section 108 Loan Guarantee B-95-MC-06-0021

This transmits the results of HUD's monitoring of the Section 108 Loan Guarantee awarded to the Redevelopment Agency of San Jose. This review was conducted in response to HUD's Office of Inspector General's Audit, raising concerns regarding three properties assisted with Section 108 Loan Guarantee funds. The review was conducted by Winston Moy, Senior, Community Planning and Development Representative, on September 18, 2014. Mr. Moy met with Mr. James Stagi, Housing Policy and Planning Administrator for the Department of Housing; and, Mr. Abe Andrade, Director of Finance, and Richard Keit, Managing Director, of the Successor Agency to the Redevelopment Agency for the City of San Jose (SARA).

As of February 1, 2012, redevelopment agencies in California were dissolved pursuant to State Law AB 1X 26. HUD's OIG's audit raised concerns regarding the documentation to show binding and enforceable rights over three properties assisted with Section 108 Loan Guarantee funds. Following are the three properties assisted:

Project	Location	HUD funding
Masson	161 W. Santa Clara Street	$1,500,000
Security	84 S. First Street	$2,350,000
Eu	35 &49 E. Santa Clara Street	$1,350,000

The project encompassed the rehabilitation of three central commercial properties located in downtown San Jose. The national objective used was job creation and retention activities benefitting low-income persons, per 24 CFR 570.208(a)(4).

As a result of the dissolution process, affordable housing projects assisted with tax increment funds were transferred to the City of San Jose Housing Department. Other projects administered by the former redevelopment agency were transferred to a new agency, called the Successor Agency to the Redevelopment Agency (SARA). The three properties in question are being managed by SARA. Except for the transfer of these properties to SARA, the

administrative and legal structure of the projects remains largely unchanged. Promissory notes are in place secured by Deeds of Trusts and have been recorded on the three properties. Property owners are currently making payments on these loans.

This project was monitored in 2003 and 2007, for compliance with Section 108 program requirements. HUD looked at program progress, compliance with national objectives, and compliance with provision of the contract agreements. The issues identified during those reviews involved the need to set up a Custodian Arrangement with a financial institution, documentation to support national objective compliance, and the establishment of a loan repayment account. Our review determined that SARA is compliant with the administrative requirements regarding custodial requirements and the need to individually account for loan repayments. We reviewed the repayment and debt schedules for the three properties. The three loans are current. Loan repayments currently cover 94 percent of the debt service of the Section 108 loan. The remaining shortfall is currently covered through the City's annual CDBG annual entitlement allocation, covered in its Annual Action Plan. The amount covered by the CDBG annual allocation is no more than $30,000 for all three properties. The current loan balances for all three loans is $1,305,000 (of $5.2 million).

Regarding national objective compliance, the City previously provided documentation to support 225 jobs created, of which 138 (61.33 percent) benefitted low- and moderate income persons. This goal is consistent with the amount originally proposed in the Section 108 Loan application. At the time of HUD's 2007 monitoring, we determined that a national objective and public benefit requirements at 24 CFR 570.209 had been met. However, since the project had not been completed at the time of the review, final accomplishment information had not been submitted. It was unclear at our current monitoring that job documentation was still being maintained. However, SARA staff indicated that current job counts could be obtained and that occupancy information regarding the rehabilitated affordable housing units could also be attained.

Recommended Action

We request that the City obtain current job count information for the three properties and information regarding the occupancy of the 16 units assisted as part of this project, as part of its final report regarding this project. Please respond to this letter within 30 days of receipt of this letter.

Thank you and your staff, and the staff of SARA for assisting us with our monitoring review. If you have any questions, please contact Winston Moy, Senior Community Planning and Development Representative, at (415) 489-6586 or winston.d.moy@hud.gov.

Sincerely,

Maria Cremer

Maria Cremer
Director, Community Planning
and Development Division

cc: James Stagi
Housing Policy
and Planning Administrator

Abe Andrade
Director of Finance
Successor Agency to the Redevelopment Agency
of the City of San Jose