

RESOLUTION NO. \_\_\_\_\_

**A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN JOSE (1) APPROVING THE COUNTY OF SANTA CLARA OPTION TO PURCHASE CURTNER STUDIO APARTMENTS, A 179 AFFORDABLE HOUSING PROJECT LOCATED AT 701 CURTNER AVENUE, SAN JOSE; (2) CONSENTING TO THE SUBORDINATION OF THE CITY'S DEED OF TRUST TO THE COUNTY'S OPTION TO PURCHASE WHICH INCLUDES CITY APPROVAL OF REMOVING THE CITY'S DEED OF TRUST FROM THE FEE TITLE AND PLACING CITY'S DEED OF TRUST ON THE LEASEHOLD, SHOULD THE COUNTY ACQUIRE THE PROPERTY UPON EXERCISE OF ITS OPTION TO PURCHASE; (3) CONSENTING TO THE REQUEST OF CURTNER STUDIOS LP TO REFINANCE WITH THE COUNTY OF SANTA CLARA FOR A CONSTRUCTION TO PERMANENT FINANCING LOAN OF UP TO \$14,950,000; (4) AUTHORIZING AND DIRECTING THE CITY MANAGER OR DIRECTOR OF HOUSING TO NEGOTIATE AND EXECUTE CITY DOCUMENTS TO COMPLETE THIS TRANSACTION, AND ANY AMENDMENTS THERETO**

**WHEREAS**, in 1992 entitlements were approved to allow construction of 180 single room occupancy residential hotel units (the "Project") at 701 Curtner Avenue in San José, California (the "Property"), and the following year in August 1993, the City Council of the City of San José ("City") approved a construction loan in the amount of \$2,648,302 for the development of 179 affordable housing studios which was completed in 1994; and

**WHEREAS**, the Property was developed by JSM Enterprises, Inc. ("JSM"), as a place where Silicon Valley employees could reside during the week while spending weekends with their families elsewhere, as such, it included 36 market-rate apartments, including one for the on-site-property manager, 108 low-income apartments, and 36 very low-

income apartments, and due to the target population of commuting households utilizing space during the week, the building did not include any community rooms, which are typical in affordable housing developments; and

**WHEREAS**, JSM's business model proved to be unsuccessful and the Property was put on the market, and First Community Housing ("FCH") acquired the property in December 2007 with partial financing from the City as described below; and

**WHEREAS**, the City's 2007 acquisition/rehabilitation loan of \$4,942,845 constituted approximately one-quarter of the Project's financing, and as consideration for the City loan, FCH agreed to modify the project's rent-restricted income targeting to achieve greater affordability by converting 36 unrestricted units to affordable units. City's loan is evidenced by a promissory note and secured against the fee title by a deed of trust in favor of City ("City Deed of Trust") and by City's affordability restrictions; and

**WHEREAS**, the Project was renamed "Curtner Studios" and the rehabilitation of the building was completed in early 2009; and

**WHEREAS**, FCH significantly deepened the affordability of the apartments, making 125 units affordable to extremely low-income (30% of area median income ("AMI")) individuals with qualifying annual incomes of up to \$35,150/annually for a household of two, 40 affordable units at very low income (40% of AMI) with qualifying annual incomes of up to \$58,550 for a household of two, and 13 affordable units at low income (50% AMI) with qualifying annual incomes of up to \$83,150, leaving the one-bedroom manager's apartment unrestricted; and

**WHEREAS**, part of the financing for the acquisition/rehabilitation was provided by the County of Santa Clara ("County") in the form of Mental Health Services Act (MHSA) funds, which required that 27 of the apartments be reserved for individuals with mental

health issues for whom the County provides case management and other supportive services; and

**WHEREAS**, in an effort to address the need of Curtner Studios to create space to provide services to the residents and meet the ongoing need for supportive housing, the County and FCH created a path to meet all of the needs at once with a rehabilitation financing structure, the result of which was that the County Board of Supervisors approved a construction and permanent loan not to exceed \$14,950,000 for preservation of Curtner Studios and to finance buyout of the limited partnership interest on December 18, 2018; and

**WHEREAS**, following the County investments in Curtner Studios, the development will be 100% supportive housing with a combination of permanent supportive housing servicing the chronically homeless population and rapid rehousing servicing the episodically homeless population; and

**WHEREAS**, as part of this transaction there will be a buyout of the limited partnership interest the Borrower would like to refinance with a construction to permanent loan from the County in an amount not to exceed \$14,950,000, which will allow for rehabilitation of Curtner Studios to create common area space for use by residents, property management and resident services; and

**WHEREAS**, to serve as collateral to the County loan, the County requires: a) the Option to Purchase the land from FCH, b) the subordination of the City Deed of Trust to County's option to purchase and c) removal of the City Deed of Trust from the fee title and recording of the City Deed of Trust on the leasehold should the County acquire the Property upon exercise of its option to purchase from FCH. City's affordability restrictions would continue to remain senior to all lien priorities, and on the fee, following County's or its successor's acquisition of the Property; and

**WHEREAS**, City staff recommends approving the County's option to purchase the Property to induce the County's contribution of funds and because the City does not have funds to acquire the Property, and as part of this transaction, the Property will have new added affordability restrictions by both the City and County, preserving affordability for years to come, as set forth in the memorandum from Housing dated as November 25, 2019.

**NOW, THEREFORE**, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SAN JOSE THAT:

1. The County of Santa Clara option to purchase Curtner Studio Apartments, a 179 affordable unit housing project located at 701 Curtner Avenue, San Jose is hereby approved; and
2. City consent is hereby given to the subordination of the City's Deed of Trust to the County's option to purchase which includes City approval of the removal of the City Deed of Trust from the fee title and the recording of the City Deed of Trust on the leasehold, should the County elect to exercise its option to purchase; and
3. the request of Curtner Studios LP to refinance with the County of Santa Clara for a construction to permanent financing loan of up to \$14,950,000 is hereby consented to; and
4. the City Manager or Director of Housing is hereby authorized and directed to negotiate and execute City documents to complete this transaction, and any amendments thereto.

ADOPTED this \_\_\_\_\_ day of \_\_\_\_\_, 2019, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

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SAM LICCARDO  
Mayor

ATTEST:

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TONI J. TABER, CMC  
City Clerk