



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Jim Shannon

SUBJECT: SEE BELOW

DATE: June 18, 2020

Approved

Date

6/19/2020

COUNCIL DISTRICT: 5

SUBJECT: APPROVAL OF A LOAN COMMITMENT TO HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY FOR ACQUISITION OF THE PROPERTY LOCATED AT 101 S. JACKSON FOR A NEW COMMUNITY OF AFFORDABLE 'FOR SALE' HOMES

RECOMMENDATION

- (a) Adopt a resolution:
- (1) Approving a total commitment of up to \$2,200,000 of the Housing Impact Fee Funds to Habitat for Humanity East Bay/Silicon Valley, Inc., a California nonprofit public benefit corporation for an Acquisition loan for the a new affordable 'For-Sale' housing development at the 101 S. Jackson ("101 S Jackson Development"); and
 - (2) Authorizing the Director of Housing to negotiate and execute loan documents and all other documents related to the loan and the 101 S Jackson Development.
- (b) Adopt the following Fiscal Year 2019-2020 Appropriation Ordinance Amendments in the Multi-Source Housing Fund:
- (1) Increase the revenue estimate for Fees, Rates and Charges by \$6,289,711; and
 - (2) Increase the Ending Fund Balance by \$6,289,711.
- (c) Adopt the following Fiscal Year 2020-2021 Appropriation Ordinance Amendments in the Multi-Source Housing Fund:
- (1) Increase the estimate for Beginning Fund Balance by \$6,289,711;
 - (2) Increase the Housing Loans and Grants appropriation for the Housing Department by \$2,200,000; and
 - (3) Increase the Ending Fund Balance by \$4,089,711.

OUTCOME

Approval of the proposed loan supports the City’s Moderate-Income Housing Strategy and will enable Developer to purchase the property for an affordable for-sale development at 101 South Jackson Ave in San José (*See Attachment A-Site Map*). The 101 S. Jackson Development will provide affordable for-sale townhomes with twelve Low Income homes and two Moderate Income homes, for a total of 14 families in San José. This funding commitment supports the Mayor and City Council’s 10,000-unit goal to create new affordable housing in San José.

BACKGROUND

The severe shortage of affordable homes in the San Francisco Bay Area has been a critical issue as far back as the late 1990s. Since 2012, rents and home prices have steadily climbed, particularly in the City of San José where only 1 in 8 families in San José Metropolitan Area can afford to own a median priced single-family home¹. The median home price in San José in 2018-19 was \$1,145,000.²

Following the loss of redevelopment and the scarcity of State funds, the Housing Department began developing one-year investment plans to obtain City Council direction on how to allocate its scarce resources. On May 22, 2017, the CEDC approved the FY2016/17 – FY2017/18 Affordable Housing Investment Plan (Investment Plan). The Investment Plan prioritized completing funding commitments for developments already identified for permanent supportive housing. The Investment Plan also proposed that moderate-income housing programs, including homeownership, would be fully explored in the Moderate-Income Housing Strategy, which was presented to Council mid-2019.

Need for Affordable Housing for Middle-Income Households

The majority of funding sources used by the Housing Department to finance affordable housing are limited to assisting residents between 30% and 60% Area Median Income (AMI). Residents earning 61% to 80% of AMI (\$63,000 to \$75,000 for a two-person household) are considered Low-Income but do not qualify for the majority of affordable housing in San José because of the limitations of the tax credits. Additionally, Moderate-Income residents earning 81% to 120% AMI struggle to afford housing. Combined, these groups make up the [“Missing Middle”](#) and Moderate-income households that earn too much to benefit from affordable housing programs, but earn too little to comfortably afford market rate housing.

¹ City of [San Jose Housing Market Update Q1 2019](#)

² City of San José – Annual Report on City Services 2018-19

Long Standing Partnership with Habitat for Humanity

The proposed 101 S. Jackson Development will address this need. Habitat for Humanity East Bay/Silicon Valley a long-time partner of the City, will serve as the Developer for this project. Habitat for Humanity East Bay/Silicon Valley has been building homes in the East and South Bays since being founded in 1986. While Habitat has historically been associated with rehabilitation or single family construction projects, several of the organization's most recent developments have involved the construction of townhomes (at Pleasant Creek in Walnut Creek) and condominiums (at Central Commons in Fremont). Habitat's affordable housing model requires eligible households to participate in the construction or rehabilitation, to accrue sweat-equity in their future home and community. Homeowners are also required to participate in a series of trainings on topics like financial management, leadership development, conflict resolution, and communication, which prepares homeowners for managing a Homeowners Association and collectively maintaining their communities. Habitat employs construction staff and contracts with building professionals like any other typical housing developer, but they also rely on dedicated volunteers and donations to offset the costs of construction and to keep costs affordable. With deed restrictions on every home, Habitat also ensures that when homes are resold, they are resold at an affordable price to another income eligible family or individual.

ANALYSIS

Project Description

The 101 S. Jackson Development is an affordable housing development that will consist of 14 attached single-family homes and will be developed by Habitat for Humanity East Bay/Silicon Valley. The townhomes will be two to four bedrooms for sale to Low-Income and Moderate-Income residents. Construction is expected to begin in 2021 and to be completed in 2023.

Development will be located at 101 South Jackson Avenue and is further identified as Assessor Parcel Number (APN) 481-22-067. The property is a mostly vacant 0.85-acre (37,026-square-foot) residential parcel located in a mixed-use neighborhood along a major roadway and is considered to be well suited for residential subdivision. A dedication for right-of-way would be required for the redevelopment of the property and it is estimated that approximately 4,000 square feet will be dedicated to allow connection of the two public streets, Woodset Drive and Woodset Lane, that are currently blocked by the subject property. The remainder of the site will be developed with 14 townhomes, a small community common area, associated parking areas, and landscape improvements.

Entitlements

The Developer submitted a planning application in July 2019 for Rezoning from R-1-8 to R-M, Site Development Permit, and Vesting Tentative Subdivision Map for the proposed development. The project is also using a State Density Bonus to achieve 14 homes on the site

when 10 would otherwise be permitted. The project is expected to move forward to public hearings in the fall.

Affordability Unit Mix/Area Median Income Levels

Of the 14 townhomes the Developer is proposing to build up to 12 that will be sold to households earning between 50-80% of area AMI, and at least 2 will be sold to households earning up to 110% of area AMI. The City will restrict that all homes to Moderate Income households, but it is the Developer's intent and goal to provide the deeper level of affordability by serving Lower Income households.

Using 2019 AMI levels for Santa Clara County, the average sales price for Lower Income units would range from \$302,000 (2-bedroom units) to \$353,200 (4-bedroom units). Average sales prices for Moderate Income units would range from \$721,000 (3-bedroom unit) to \$781,000 (4-bedroom unit). The precise sales price for each unit will be determined by the size of the household as well as the household income.

For the 101 S. Jackson Development, the Developer plans to build the following for-sale townhomes:

Income Target	Bedroom Size	Number of homes
Low-income (80% AMI)	Two bedrooms	2
Low-income	Three bedrooms	8
Low-income	Four bedrooms	2
Moderate-Income (110% AMI)	Three bedrooms	1
Moderate-Income	Four bedrooms	1
Total number of homes		14

Income Limits

	4 Person Household	8 Person Household
Low-Income Max Income		
Low-income (80% AMI)	\$112,150	\$148,050
Moderate-Income Max Income	4 Person Household	8 Person Household
Moderate-Income (110% AMI)	\$155,760	\$205,590

The proposed loan of \$2,200,000 from the City of San José will enable Developer to acquire the land and, in doing so, advance the work to develop the townhomes.

Financing

The loan from the City of San José will be sized based on the City appraisal. Prior to the close of the loan, the Developer shall submit to the City and the City will approve a final proforma budget reflecting the Developer's estimated income and operating expense cash flow for the Development.

Developer will hold title as Fee Ownership after the acquisition of the site and during the planning entitlement and construction process. Developer will procure and deliver to the City evidence that construction financing has been secured by December 31, 2020. The loan documents would include an option to purchase the land in the event the project does not timely obtain construction financing. The senior financing may be secured by a first lien, to which the City's deed of trust could be subordinated, consistent with the Department's underwriting guidelines.

Proposed Financing Sources:

- **Construction Loan** – Developer has several lenders who provide construction lending for its current and past affordable housing projects, including Heritage Bank, and Fremont Bank.
- **Habitat for Humanity EBSV** – Developer will fundraise for both general unrestricted donations for operations as well as project-specific donations for housing unit construction. The Developer will use its internal capital to address any shortfalls in the project funding.
- **City of San José** – Proposed \$2,200,000 from the City's Affordable Housing Impact Fee Fund Moderate-Income set-aside to provide acquisition financing for the property.
- **Santa Clara County Measure A** – Developer has been discussing this project with the Office of Supportive Housing since late 2018 regarding a commitment for Measure A Homeownership Housing funds. Should the project obtain its development entitlements, a formal application will be submitted to the County for the required assistance.
- **AHP/WISH** – The Federal Home Loan Bank's (FHLB) Affordable Housing Program's (AHP) Workforce Initiative Subsidy for Homeownership (WISH), is a program where the FHLB Bank sets aside a portion of its annual Affordable Housing Program contribution to provide matching grants through member Banks for down payment and closing cost assistance to eligible first-time homebuyers. The Developer has applied for and been a successful recipient of awards for projects in the past, including a recent 30-unit condominium project in Fremont. The Developer also has an established relationship with the both Meriwest Credit Union and Patelco Credit Union, whom are member financial institutions, and have served as Developer sponsors for this program funding.
- **State Housing and Community Development (HCD)** – Developer has a long track record of receiving awards from various HCD affordable housing funds, including AHSC, CalHome, BEGIN, and CSHHP. Developer has also been successful in receiving grants from counties for CDBG and HOME program funds. Developer will be responding to NOFA's for all applicable HCD and Santa Clara County program funds

once project entitlements are obtained, as that requirement creates a highly competitive application for receiving awards by demonstrating “shovel-readiness” in the near future.

Resident Preference

Subject to approval by the City Council, the Developer has agreed to work with the City to establish an allocation of additional points for potential home buyers seeking to enter the lottery established for the sale of the townhomes. The City is currently working to develop preference policies for displaced individuals, those who live or work in San José, and those residing in certain neighborhoods vulnerable to displacement. Subject to approval by other funders, the Developer has agreed to implement these preference procedures during the lottery period for these “For Sale” townhomes if the City Council has approved final policies and in accordance with Fair Housing Law, prior to resale of these townhomes.

Next Steps

The City of San José will work with Developer to negotiate and execute loan documents and all other documents related to City financing for the 101 S Jackson Development.

CONCLUSION

Staff recommends the 101 S. Jackson Development for approval of a funding commitment of \$2,200,000 from the Multi-Source Housing Fund using affordable housing impact fees collected to create 14 new affordable ‘For-Sale’ townhomes in San José

EVALUATION AND FOLLOW-UP

The Housing Department produces quarterly Information Memoranda regarding the use of the Director of Housing’s Delegation of Authority under the Municipal Code; therefore, final loan business terms would be summarized in those memoranda. In addition, the Housing Department posts periodic reports on the status of its affordable properties undergoing rehabilitation or construction to its website, www.sihousing.org. If the recommended actions are approved and Developer successfully closes construction financing, it would be included in the Production Reports.

PUBLIC OUTREACH

Developer is engaging with the community, provide information, answer questions, and to better understand the concerns of neighborhood residents and businesses. The Developer held four community meetings in 2018 that included community partners such as Cosmopolitan Evangelical United Church of Christ, the Mayfair Steering Committee, and the leadership of Somos Mayfair, to get community feedback about the potential development.

COORDINATION

Preparation of this report was coordinated with the City Attorney's Office.

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more of Climate Smart San José energy, water, or mobility goals.

POLICY ALTERNATIVES

The Housing Department considered the following alternative before making these recommendations for this affordable housing development.

Alternative #1:

The City Council could deny the requested funding commitment.

Pros:

The requested funds could be used for other moderate-income rental affordable housing developments.

Cons:

Habitat has a unique development model that provides an opportunity for homeownership for both Low- and Moderate Income buyers. No other developer is providing an opportunity for homeownership in this market.

Reason for not recommending:

The 101 S. Jackson Development is a viable opportunity to serve residents from a range of income levels.

COMMISSION RECOMMENDATION/INPUT

This item was not heard by the Housing and Community Development Commission, as approvals of affordable development financing do not fall under the functions, powers, and duties of the Commission delineated in Section 2.08.2840 of the San Jose Municipal Code.

FISCAL/POLICY ALIGNMENT

This action is consistent with the City’s *Consolidated Plan 2015-2020*, adopted by City Council on May 5, 2015; and with Goal H-2 of the City’s *Housing Element 2014-2023*, adopted by City Council on January 27, 2015, to “increase, preserve, and improve San José’s affordable housing stock.”

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION: \$2,200,000
2. SOURCE OF FUNDING: Affordable Housing Impact Fee Fund, a memo fund to the Multi-Source Housing Fund
3. FISCAL IMPACT: Funding in the amount of \$2,200,000 has been reserved in the Affordable Housing Impact Fee Fund, a memo fund to the Multi-Source Housing Fund. Recommendations in this memorandum will recognize the affordable housing impact fees that have been collected in 2019-2020 in the amount of \$6.3 million and rebudget those funds into 2020-2021, of which \$2.2 million will be recommended to be appropriated to the Housing Loans and Grants appropriation to fund the loan and the remaining \$4.1 million will be allocated to unrestricted ending fund balance for future use. The Housing Loans and Grants appropriation will encumber and draw at or after close of escrow for the acquisition of the property. There is no on-going fiscal impact as a result of this action.

BUDGET REFERENCE

The table below identifies the fund and appropriations for the loan recommended in this memorandum. Because funds received in 2019-2020 need to be made available for use in 2020-2021, the tables below capture the recommended budget actions in both fiscal years.

Fund #	Appn #	Appn. Name	Total Appn	Rec. Budget Action	2019-2020 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
448	R120	Fees, Rates and Charges	\$500,000	\$6,289,711	X – 70	06/18/2019, Ord No. 79162
448	8999	Ending Fund Balance	\$9,726,566	\$6,289,711	X – 72	02/11/2020, Ord No. 30361

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Fund #	Appn #	Appn. Name	Total Appn	Rec. Budget Action	2020-2021 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
448	R999	Beginning Fund Balance	\$32,565,514	\$6,289,711	IX – 71	N/A
448	0070	Housing Loans and Grants	\$200,000	\$2,200,000	IX – 72	N/A
448	8999	Ending Fund Balance	\$5,421,059	\$4,089,711	IX – 73	N/A

*The 2020-2021 Proposed Operating Budget was approved by the City Council on June 16, 2020 and scheduled for adoption on June 23, 2020.

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment. The project is exempt from CEQA review per Public Resources Code Section 21080(b)(1) and CEQA Guidelines Section 15369, Ministerial Project pursuant to Government Code Section 65913.4, File No. ER20-109.

/s/
JACKY MORALES-FERRAND
 Director, Housing Department


JIM SHANNON
 Budget Director

I hereby certify that there will be available for appropriation in the Multi-Source Housing Fund in Fiscal Year 2019-2020 and Fiscal Year 2020-2021 moneys in excess of those heretofore appropriated therefrom, said excess being at least \$6,289,711.

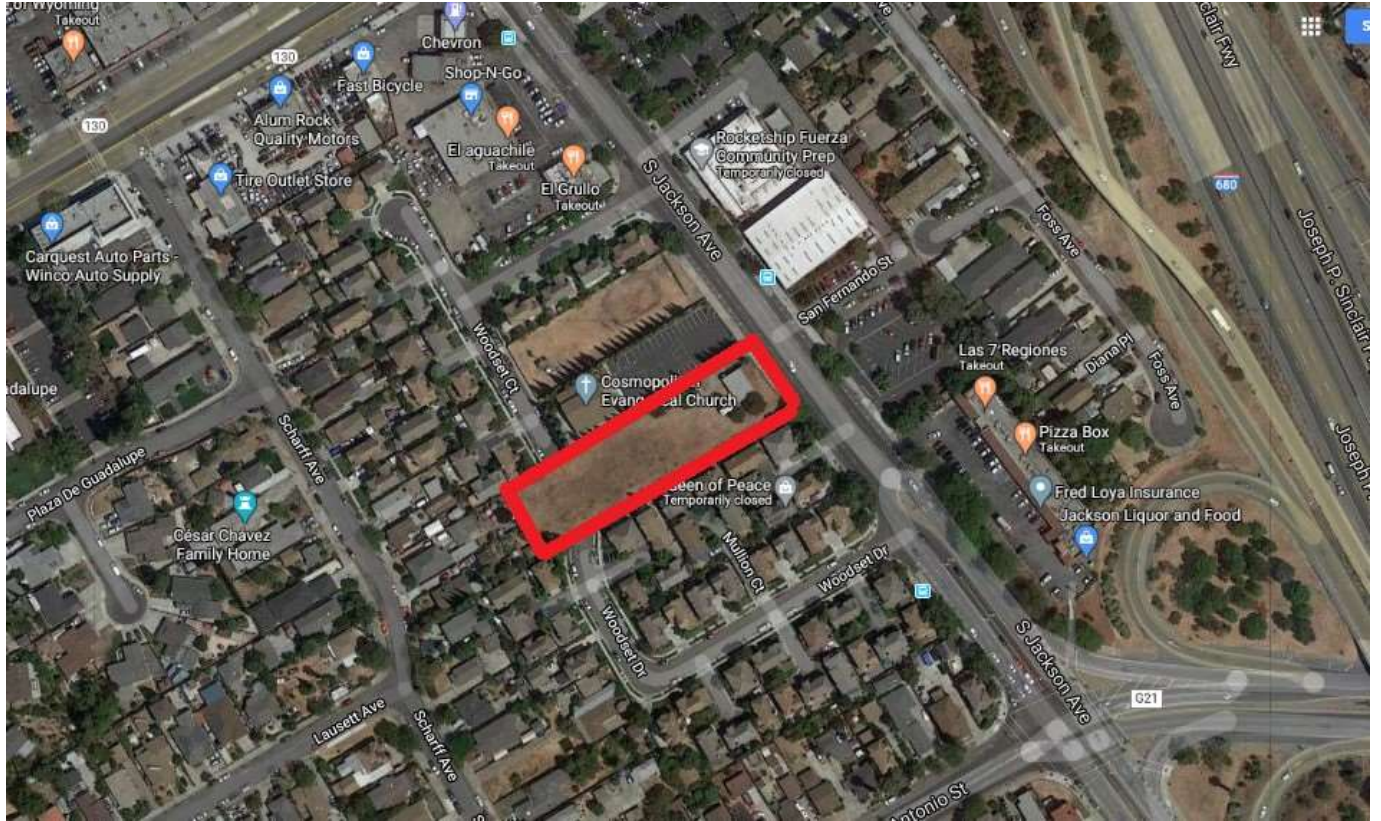

JIM SHANNON
 Budget Director

For questions, please contact Rachel VanderVeen, Deputy Director, (408) 535-8231

Attachment A: 101 S. Jackson Development: Site Map

Attachment B: 101 S. Jackson Development: Site Plan

Attachment A: 101 S. Jackson Development: Site Map



Attachment B: 101 S. Jackson Development: Site Plan

