

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN JOSE (A) APPROVING A CONSTRUCTION AND PERMANENT LOAN COMMITMENT OF \$13,000,000 TO SECOND STREET STUDIOS, LP, A CALIFORNIA LIMITED PARTNERSHIP AND AFFILIATE OF FIRST COMMUNITY HOUSING, FOR THE SECOND STREET STUDIOS DEVELOPMENT LOCATED AT 1144 SOUTH SECOND STREET; (B) AUTHORIZING THE DIRECTOR OF HOUSING OR THE DIRECTOR OF HOUSING'S DESIGNEE TO NEGOTIATE WITH SECOND STREET STUDIOS, LP FOR THE REFINANCE AND PAYOFF OF THE OUTSTANDING \$12,000,000 SENIOR SILICON VALLEY BANK LOAN TO THE DEVELOPMENT AND FOR THE FUNDING OF AN ADDITIONAL \$1,000,000 TO PAY FOR OTHER OPERATING EXPENSES OF THE DEVELOPMENT; AND (C) AUTHORIZING THE DIRECTOR OF HOUSING OR THE DIRECTOR OF HOUSING'S DESIGNEE TO NEGOTIATE AND EXECUTE EITHER AN AMENDMENT TO THE EXISTING LOAN DOCUMENTS FOR A LOAN INCREASE OR A NEW LOAN COMMITMENT FOR CONSTRUCTION AND PERMANENT FINANCING IN THE AMOUNT OF \$13,000,000 FROM THE LOW AND MODERATE INCOME HOUSING ASSET FUND, INCLUDING ANY RELATED DOCUMENTS, AMENDMENTS OR MODIFICATIONS THERETO

WHEREAS, the Second Street Studios project, a 135 unit one hundred percent (100%) permanent supportive housing development located at 1144 South Second Street, ("Development") was completed and fully leased in August 2019; and

WHEREAS, the City currently has a construction and permanent loan in the amount of \$20,158,673 to Second Street Studios, LP ("Developer") with a 4% simple interest per annum for a term of 55 years repaid from residual receipts; and

WHEREAS, in June of 2022 staff learned from Developer and the Bank that the Development's financial position and financial stresses were impacting the Development's ability to pay its monthly senior loan repayment; and

WHEREAS, over the past year operating expenses have exceeded the rents collected and project sponsor First Community Housing ("FCH") was forced to lend the Development funds to pay property managers, contractors and service providers; and

WHEREAS, the Housing Department has determined that there is a need to increase cash flow in order to stabilize operations, pay for the unanticipated operating expenses and eliminate short-term unpaid financial obligations as described in the memorandum from the Housing and Budget Departments dated November 21, 2022 ("Memorandum"); and

WHEREAS, staff recommends additional City funding to the Development in order to pay off the Bank Loan to the Development by the Developer's refinancing and to payoff of the outstanding \$12,000,000 senior Silicon Valley Bank Loan and an additional \$1,000,000 in funding for Development operations; and

WHEREAS, the restructure of the senior loan debt will eliminate the Bank's monthly payment of \$84,579 and allow the property to become qualified for and receive the final Equity Pay-in Amount and the redirected funds could go to the Development to pay current liabilities and then to repayment of the City's loans, and

WHEREAS, this would also allow the Developer, over a period of time, to fully fund the Operating and Social Services Reserves.

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

The City Council hereby:

- A. Approves a Construction and Permanent loan commitment of \$13,000,000 to Second Street Studios, LP for the Second Street Studios Development located at 1144 South Second Street.
- B. Authorizes the Director of Housing or the Director of Housing's designee to negotiate with Second Street Studios, LP for the refinance and payoff of the outstanding \$12,000,000 senior loan made by Silicon Valley Bank to the Development and for the funding of an additional \$1,000,000 to pay for other operating expenses of the Development.
- C. Authorizes the Director of Housing or the Director of Housing's designee to negotiate and execute either the amendment of the existing loan documents to reflect a \$13,000,000 increase to the existing City of San José construction and permanent financing commitment for the Development or a new set of loan documents evidencing a new construction and permanent loan commitment in the amount of \$13,000,000, including any documents, amendments or modifications thereto.

ADOPTED this _____ day of _____, 2022, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

SAM LICCARDO
Mayor

ATTEST:

TONI J. TABER, CMC
City Clerk