



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Jim Ortbal
Angel Rios, Jr.

SUBJECT: SEE BELOW

DATE: December 19, 2017

Approved

D. D. S. L.

Date

12/21/17

COUNCIL DISTRICT: 5

**SUBJECT: AFFORDABLE HOUSING AND SUSTAINABLE COMMUNITIES (AHSC)
GRANT FOR THE QUETZAL GARDENS PROJECT AT ALUM ROCK
AVENUE AND TRANSPORTATION-RELATED CAPITAL
IMPROVEMENTS**

RECOMMENDATION

Adopt a resolution:

- 1) Authorizing the City Manager or his designee to submit a joint application, with Resources for Community Development (“RCD” or “Developer”), to the California Strategic Growth Council (SGC) and/or California Department of Housing and Community Development (HCD) in an amount not to exceed \$12,551,400 under Round 3 of the Affordable Housing and Sustainable Communities (AHSC) program to fund new affordable housing, infrastructure and programs that help reduce greenhouse gas emissions in San José.
- 2) Authorizing the City Manager or his designee to enter into, execute, and deliver a State of California Standard Agreement (Standard Agreement) in a total amount not to exceed \$12,551,400 (\$8,000,000 for the AHSC Loan and \$4,551,400 for the AHSC Grant), and any and all other documents required or deemed necessary or appropriate to secure the AHSC Program funds.
- 3) Authorizing the City Manager or his designee to execute in the name of the City the AHSC Program Application Package and the AHSC Program Documents as required by HCD for participation in the AHSC Program.
- 4) Authorizing the City Manager or his designee to negotiate and execute an agreement with RCD to allocate responsibilities and liabilities between the City and RCD in the event the grant and loan are awarded to the City and RCD as co-applicants.

- 5) Authorizing the City Manager or his designee to negotiate and execute an agreement with the Valley Transportation Authority (VTA) as a non-applicant for the purpose of operating enhanced transit services using an electric bus and installing and maintaining transportation amenities.

OUTCOME

City Council adoption of the resolution will authorize staff to work with RCD to submit an AHSC grant application, as joint applicants, on or before January 15, 2018. In the event that SGC awards the AHSC grant funds requested, RCD and the City will together receive as much as \$12,551,400 (\$8,000,000 for the AHSC Loan and \$4,551,400 for the grant) to help fund the design and construction of affordable housing, sustainable transportation infrastructure, and urban greening. Together, these projects are referred to as “Quetzal Gardens” and will be completed independently by each party of this joint application over five years.

EXECUTIVE SUMMARY

The Affordable Housing and Sustainable Communities (AHSC) program provides loans to construct affordable housing and grant funds to build greenhouse gas reducing infrastructure that supports transit, bicycling and walking. Last year the City and several partners applied for two grants and were awarded nearly \$28 million. This year, City staff are recommending that the City submit one application to fund the construction of the Quetzal Gardens mixed-use affordable housing development, enhanced bike lanes, pedestrian crossings, urban greening in three park locations, and activities under the Vision Zero program in East San José. In addition, this application would purchase an electric bus for VTA to run on route 77 as part of the Next Network service enhancement and new bus shelters and other amenities along King Avenue. The project would also add new trees and landscaping to three parks. The proposed project responds to needs identified through the Vision Zero program, the Little Portugal Urban Village Plan, and the City’s Green Print plan.

BACKGROUND

The AHSC Program, as part of the “Cap and Trade” Program, was established with the passage of AB 32, the California Global Warming Solutions Act of 2006. The purpose of the AHSC Program is to reduce Greenhouse Gas (GHG) emissions through projects that implement land-use, housing, transportation, and agricultural land preservation practices to support infill and compact development, and that support related and coordinated public policy objectives, including the following:

- (1) Reducing air pollution
- (2) Improving conditions in disadvantaged communities

- (3) Supporting or improving public health and other co-benefits
- (4) Improving connectivity and accessibility to jobs, housing, and services
- (5) Increasing options for mobility
- (6) Increasing transit ridership
- (7) Preserving and developing affordable housing for lower income households
- (8) Protecting agricultural lands to support infill development

The AHSC Program is designed to reduce GHG emissions through fewer or shorter vehicle trips. The AHSC Program funds integrated land use and transportation projects supporting low-carbon transportation options. Promoting low-carbon transportation requires strategies that link residential areas, major employment centers and other key destinations to transit and active transportation options such as walking and cycling.

The lack of affordable housing in San José creates an extremely challenging situation for low income individuals, families, and unhoused members of the community. Between 2010-2014, 41% of San José Residents paid more than 30% of their income on housing.¹ In addition, more than 4,000 people in San José are homeless, with over two-thirds of that population living on the streets or in encampments. As stated in the City's *FY 2017-2018 Housing Investment Plan*, funding for affordable housing is limited due to the elimination of redevelopment agency funds, the depletion of State funds such as Proposition 1C, and the reduction of Federal entitlement programs such as HOME. AHSC can help the City to stretch its affordable housing dollars further to expand the City's affordable housing pipeline.²

In addition to providing more affordable housing, policymakers in California and around the Bay Area continue to seek new ways to pay for "green" infrastructure to reduce greenhouse gas emissions, conserve natural resources, reduce air and water pollution, and to create enhancements that support denser development and encourage the use of alternative modes of transportation.

Last year, the City of San José partnered with affordable housing developers on two different AHSC projects. Both projects were funded for a total of nearly \$28 million. This year the City focused on one application. Over the past few months, an interdepartmental team of City staff from the Departments of Housing, Transportation (DOT), Parks Recreation and Neighborhood Services (PRNS), and the City Attorney's Office have been working closely with RCD, the Valley Transportation Authority and technical assistance provider Enterprise Community Partners, to evaluate potential capital projects and to prepare an innovative, collaborative, and compelling application. Last year the AHSC program awarded \$289 million statewide and this year \$255 million is available.

¹ 2010-14 U.S. Department of Housing and Urban Development, CHAS Data

² <http://www.sanjoseca.gov/DocumentCenter/View/69125>

Grant Requirements

The State requires AHSC applicants to submit a City Council resolution with each grant application. The resolution must authorize City staff to apply for and accept the AHSC funds. The State also requires that joint applicants be held 'joint and severally' bound to the completion of all elements that are proposed in the concept application to provide accountability and ensure that the full scope of the project is realized on time and on budget. This is explained in more detail later in this memorandum.

ANALYSIS

Project Area

The project area is centered at the intersection of King and Alum Rock just east of Highway 101 and west of Interstate 680. The housing site is adjacent to the City's first Bus Rapid Transit line. The project area is served by several additional bus lines with the future Berryessa BART station to be located to the North of the intersection at King and Alum Rock. The area includes commercial uses along Alum Rock Avenue and residential areas to the north and south of Alum Rock Avenue. The Project area includes Mexican Heritage Plaza, Mayfair Community Center, seven schools, four parks, and future connections to the Silver Creek and Five Wounds Trails. The project overlaps with the Little Portugal Urban Village area and qualifies as a Disadvantaged Community according to the California Air Resource Board. A map of the AHSC Project Area is provided as **Attachment A**.

Quetzal Gardens Apartments and Commercial

Located at 1695 Alum Rock Avenue, Quetzal Gardens will include 70 service-enriched affordable apartments, a manager's unit, and service/community space. The apartments will consist of 47 apartments restricted to ELI households at 30% of AMI (incomes ranging from \$26,880 - \$37,260, dependent upon the number of bedrooms) and 23 restricted to Low-Income households at 60% of AMI (incomes ranging from \$53,760 - \$74,520, dependent upon the number of bedrooms). 47 of the apartments will be set aside for formerly homeless individuals and families including 23 permanent supportive housing units for the chronically homeless.

The Project will consist of six levels which are designed to promote social interaction with supportive supervision. The ground level and first-floor will feature a lobby, manager's office, mail room, bike parking, trash rooms, parking garage, and nearly 7,000 square feet of retail space for a community serving non-profit. The third-floor podium courtyard will offer two offices and meeting space for supportive service staff, a community room, and play and outdoor space. Residents will have access to a computer lab and technology lessons from resident services staff. RCD intends to partner with Somos Mayfair ("Somos") to activate the ground level space and supplement services provided to the building residents. The building will include a small public plaza with landscaping and seating. RCD will provide VTA Ecopasses for all Quetzal Gardens

residents. Quetzal Gardens has been GreenTrip certified meaning that its residents will likely drive less because of the site's proximity to high quality transit and other factors.

If the AHSC grant application is approved, the developer will receive a \$8,000,000 loan that will pay off construction debt and be used as a source of permanent financing. The AHSC loan is subordinate to City financing.

Urban Greening

The City proposes to plant approximately nine trees on the Western edge of Plata Arroyo park near the bus stop on King Road. In addition, the City proposes to plant eight trees, shrubbery, groundcover, and install irrigation along the eastern edge of Emma Prusch Park. The proposed sites are located within existing City Parks and are heavily used by the community for recreation. A project map is included as Appendix A.

Transportation Improvements

If awarded, this grant would fund the design and construction of several transportation improvements within a one-mile radius of the Quetzal Gardens Apartments. Proposed improvements focus on providing bikeways and safe and accessible walkways as well as promoting transit ridership. Corridors that will see various improvements through this grant are Alum Rock Avenue, King Road, San Antonio Avenue, Kammerer Avenue, Julian Street / McKee Road, Lenfest Road, and Las Plumas Avenue.

These improvements will enhance safety for the community and provide greater access to key destinations. The scope of work includes, but is not limited to, enhanced crosswalks, upgraded accessible curb ramps, Rectangular Rapid Flash Beacons (RRFB), a new traffic signal, Class IV Bikeways, Class II Bike lanes, bike racks, and streetlight improvements. A vicinity map of the project area is included as Appendix A.

Use of Funds

If awarded, the City and its partners included in the Quetzal Gardens application would receive up to \$12,551,400 in grant funds (\$8,000,000 for the AHSC Loan and \$4,551,400 for the grant). The distribution of those funds is summarized in Table 1.

Table 1 – Distribution of Grant Funds

Responsible Party	Capital Project	Total Cost	AHSC Funds
Affordable Housing and Related Infrastructure			
Developer	Quetzal Gardens	\$58,000,000	\$8,000,000
Developer	EcoPasses Transit Ridership	\$80,000	\$80,000
Urban Greening			
PRNS	Park Improvements within the defined Project Area	\$135,000	\$135,000
Transportation Improvements			
DOT	Vision Zero Program funding will allow for installing multi-modal traffic safety messages such as a project area specific street banners and VTA bus messages; providing traffic safety education at schools; promoting walking, biking, and transit use; and purchasing traffic safety devices all within the project area.	\$420,000	\$420,000
DOT	Transportation Related Amenity (TRA) Improvements that support walking, biking, and transit use may include, but are not limited to, bike racks and street lighting improvements.	\$346,000	\$346,000
DOT	Sustainable Transportation Infrastructure (STI) Improvements may include, but are not limited to, crosswalk enhancements such as flashing beacons and additional striping, updated curb ramps, a new traffic signal, Class IV Bikeways, and Class II Bike Lanes.	\$2,274,400	\$2,274,400
VTA	New Electric Bus (STI)	\$1,000,000	\$1,000,000
VTA	Bus Stop Improvements may include shelters and solar real-time information at various locations. (TRA)	\$296,000	\$296,000
	Totals	\$ 62,551,400	\$12,551,400

Joint and Several Liability

The State requires that joint applicants be held 'joint and severally' bound to the completion of all elements that are proposed in the concept application to provide accountability and ensure that the full scope of the project is realized on time and on budget. This contract condition is common with other grants and it holds all parties involved responsible for the total fulfillment of grant obligations under a collective agreement. In the event that one partner defaults on their responsibilities, the other partner would be required to fulfill the obligation. For example, the City would be liable for the loan for the affordable housing development at 1695 Alum Rock Avenue Road if RCD does not meet the obligations of the loan. Similarly, RCD would be responsible for completing the City's and VTA's transportation related capital improvements should the City fail to complete them.

After some comparison research with other cities and further analysis, staff has concluded that much of the risk can be mitigated if the grant is phased so that the City begins its capital projects after RCD's construction loan has closed. In affordable housing development, much of the risk dissipates after the construction loan closes as almost all affordable housing developments in California are completed once construction commences. In addition to phasing, it is anticipated that the City and RCD would enter into an indemnification agreement to further specify the deliverables and responsibilities of each party under the grant and loan documents. Under the indemnification agreement, the City would be responsible for completing the capital projects and programs assigned to it in Table 1, and RCD would be responsible for completing the affordable housing development and supporting the VTA Eco Pass program for residents of Quetzal Gardens.

This indemnification agreement would establish the roles and responsibilities of the City and RCD and would, at a minimum, include the following terms:

- The City shall in its sole responsibility, complete its obligations (not to exceed \$3,175,400.00 in AHSC funds) as detailed in Table 1 of this memorandum.
- RCD shall in its sole responsibility, complete its obligations (not to exceed \$8,080,000 in AHSC funds) as detailed in Table 1 of this memorandum.
- The City and RCD shall indemnify, defend, protect, and hold each other harmless against any and all claims arising out of or in connection with each other's performance or failure to perform its obligation to complete construction and development of the parties respective AHSC obligations.
- The City and RCD shall comply with the schedule of performance contained within the grant application and provide progress reports to the City and RCD on a regular basis.
- The City and RCD shall be responsible for paying all cost overruns associated with their respective AHSC obligations.
- The Agreement shall terminate upon completion of the obligations under the AHSC Documents or mutual agreement of the City and RCD.

VTA would serve as a contractor (not a co-recipient) to operate the electric bus on Route 77 and to install and maintain bus shelters and related amenities within the project area. A separate

“side” agreement between VTA, the City and RCD would be executed and submitted with the application, as required, to demonstrate prior experience with delivering such projects. The “side” agreement would also establish the roles and responsibilities of VTA, the City and RCD and would, at a minimum, include the following terms:

- VTA shall in its sole responsibility, complete its obligations to:
 - Provide 1 electric bus (not to exceed \$1,000,000.00) and commit to servicing, at minimum, 1 electric bus on Route 77 for ten years. The electric bus will not exclusively run on Route 77, as VTA assigns buses to different routes, depending on operational needs,
 - The purchase and installation of 16 bus shelters with solar powered real time arrival signs (not to exceed \$296,000.00) at locations detailed in the AHSC application.
- VTA shall indemnify, defend, protect and hold harmless the City and RCD against any and all claims arising out of or in connection with VTA’s performance or failure to perform its obligations to procure an electric bus, complete construction of bus shelters, and to operate transit services as outlined in the scope.
- VTA shall comply with the schedule of performance contained within the grant application and provide progress reports to the City and RCD on a regular basis.
- VTA shall be responsible for paying all cost overruns associated with its AHSC obligations.
- The Agreement shall terminate upon completion of the obligations under the AHSC Documents or mutual agreement of the City, VTA and RCD.

For this third round of the AHSC Program, \$255 million is available statewide. The AHSC program is highly competitive. Last year 130 teams applied statewide and only 25 were awarded. While joint and several liability does present some risks, many agencies across the state have found ways to mitigate this risk and are moving ahead with competitive joint applications.

Performance Requirements

The AHSC funding application requires applicants to include project milestones and deliverables. If the City submits a full application and AHSC funds are awarded, the team would be required to meet certain performance milestones. Anticipated dates for completion of these milestones are listed below:

Milestone	Date Due
Funding Award	June 2018
Standard Agreement Executed	November 2018
Disbursement Agreement Executed	November 2018
Begin Construction (Housing)	January 2019
Begin Construction (Transportation, Urban Greening)	February 2019
Disbursement Deadline	June 2023

EVALUATION AND FOLLOW-UP

If the City is awarded AHSC funding, staff from the effected departments (Housing, Transportation, and Parks) will work with RCD, the VTA, the City Manager's Office, and the City Attorney's Office to prepare and execute all required documents and agreements necessary for the grant. The City Attorney's Office would prepare a joint indemnification agreement and a schedule of deliverables with assigned responsibilities and milestones.

If the project application is approved, staff will bring forth a memorandum to City Council requesting appropriation of the AHSC funds. The AHSC is a reimbursement based grant and the City would need to "front" funding for its projects. The appropriation request will include additional detail regarding the project scope and schedule.

POLICY ALTERNATIVES

Alternative: Do not approve the staff recommendation to submit the application and accept AHSC funds.

Pros: The City would avoid the financial risk associated with the AHSC joint and several liability requirements.

Cons: The City would lose the opportunity to obtain up to \$12,551,400 in State funds for new affordable housing, transportation infrastructure, services, and other amenities.

Reason for not recommending: Staff expects to limit the risk derived from the joint and several liability requirements through project phasing, indemnification agreements, a workplan, and on-going coordination. Furthermore, the risks associated with construction of the affordable housing development is minimal and can be mitigated through a variety of measures.

PUBLIC OUTREACH

RCD implemented a comprehensive outreach plan to engage with the community to provide information, answer questions, and better understand the concerns of the neighborhood residents and businesses. RCD hosted a total of 13 neighborhood or community meetings from August 2017 to May 2017, which were attended by more than 200 community members. These meetings addressed a wide array of topics such as project design, services, and property management. The City of San José Planning Commission approved a Conditional Use Permit for Quetzal Gardens on June 14, 2017.

Past community planning documents, such as the Five Wounds Urban Village Plan and Little Portugal Urban Village Plan, included community engagement which were examined for potential enhancements. In addition, the City's Department of Transportation (DOT) relied on many past and ongoing community outreach activities to determine the scope of the transportation enhancements. The Visions Zero Program also conducted safety assessments on

the Vision Zero Priority Safety Corridors which includes King Road, McKee Road, and Alum Rock Avenue within the project area, and provided suggestions on safety enhancements. Safety assessments include walk audits carried out by City staff with representatives of abutting residents, Silicon Valley Bicycle Coalition, and California Walks. Additionally, as part of the Vision Zero Program, city staff attended numerous meetings in every Council District each year.

DOT staff participated in the Somos Mayfair hosted community walk with Gil Penalosa of 8 80 Cities. Gil Penalosa is an internationally recognized healthy communities advocate and founder of the non-profit organization 8 80 Cities. The community walk guided participants through an area within the project limits and described various enhancements that could be made to improve the environment. This event included community representatives and staff members from two Council Districts. This process yielded several additional enhancements within the project area.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

The City of San José Planning Commission approved a Conditional Use Permit for Quetzal Gardens on June 14, 2017 on a vote of 5-0-2 with two Commissioners absent.

FISCAL/POLICY ALIGNMENT

This Project is consistent with: the City's *Envision 2040 General Plan*, *The 2014-23 Adopted Housing Element* by helping the City meet its Regional Housing Needs Allocation; the City's Little Portugal Urban Village Plan; the City's current *Housing Investment Plan* by increasing the supply of affordable housing; the City's *2015-20 HUD Consolidated Plan* by providing apartments that will be affordable for very low- and extremely low-income households; the *Community Plan to End Homelessness* approved by the City Council in February 2015 by providing supportive housing for homeless residents; and the City's Vision Zero traffic safety program.

COST SUMMARY/IMPLICATIONS

This memorandum does not include budget actions. As proposed developments become ready for funding commitments from the City, they will be brought forward to the City Council for approval and appropriation action on an individual basis.

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Subject: AHSC Grant Application for Quetzal Gardens and Transportation Capital Projects

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As with many grant programs, the AHSC program provides funds via a reimbursement basis after project expenses are incurred. If awarded, the City would need to provide advance funding for City projects and programs prior to receiving any AHSC revenues as reimbursements. If sufficient funding, staffing, or resources cannot be identified to complete all proposed projects by the June 2023 deadline, the State may require the City and RCD to repay funds previously reimbursed by the grant or otherwise work with the State to achieve acceptable terms for an extension.

CEQA

Quetzal Gardens Project was categorically exempt, File No. CP17-009, and the transportation improvements were categorically exempt, File No. PP17-083. The programming improvements are not a project under CEQA, File No. PP17-006, grant application with no commitment or obligation to enter into an agreement at the time of application.

/s/

JACKY MORALES-FERRAND
Director of Housing

/s/

JIM ORTBAL
Director of Transportation

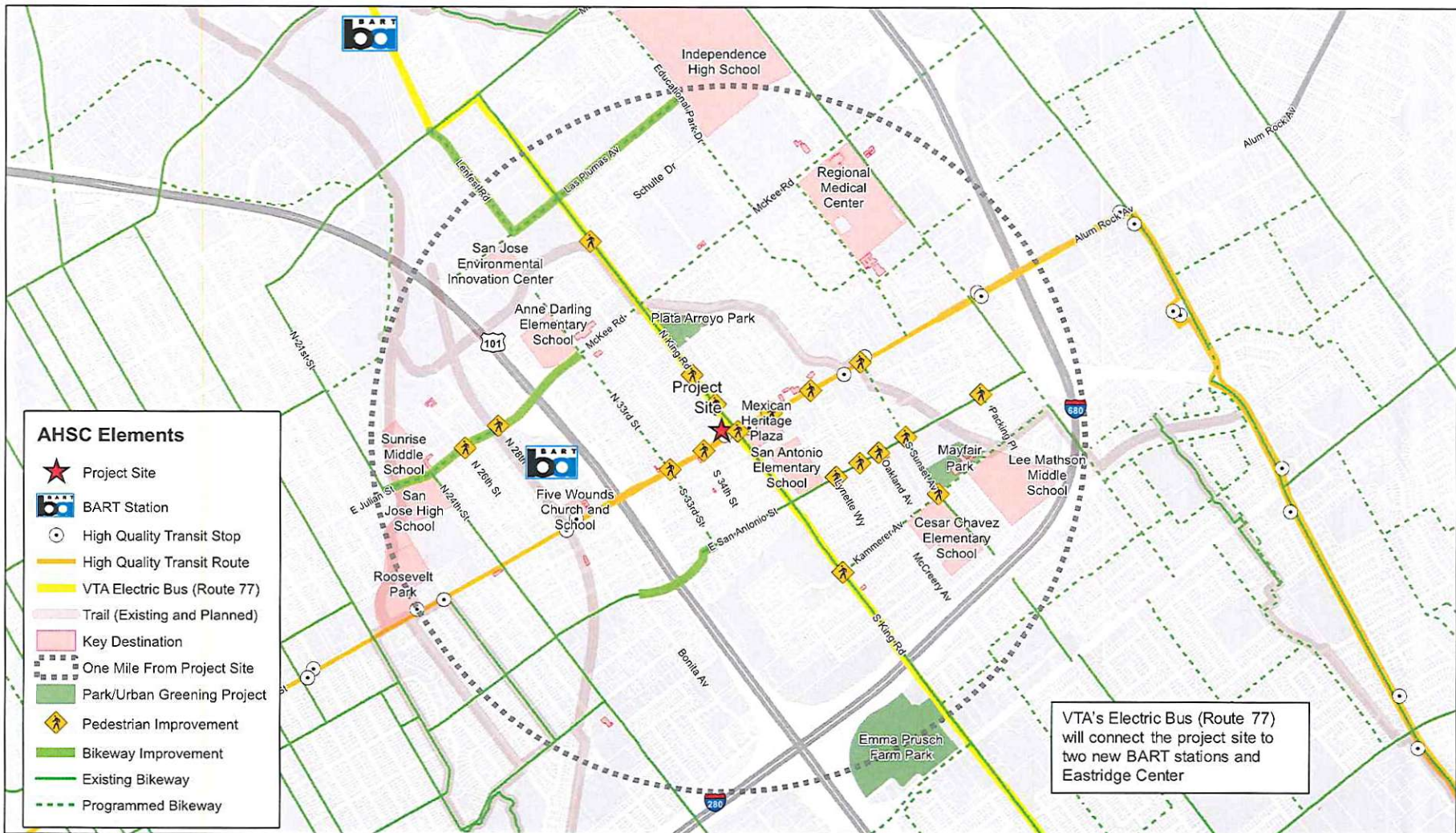
/s/

ANGEL RIOS, JR.
Director of Parks,
Recreation and Neighborhood Services

For questions, please contact Adam Marcus, Housing Policy Manager at (408) 975-4451.

Attachment A: Project Area Map

AHSC Quetzal Gardens: Transportation Projects



- AHSC Elements**
- ★ Project Site
 - BART Station
 - ⊙ High Quality Transit Stop
 - High Quality Transit Route
 - VTA Electric Bus (Route 77)
 - Trail (Existing and Planned)
 - Key Destination
 - One Mile From Project Site
 - Park/Urban Greening Project
 - ⚡ Pedestrian Improvement
 - Bikeway Improvement
 - Existing Bikeway
 - - - Programmed Bikeway

VTA's Electric Bus (Route 77) will connect the project site to two new BART stations and Eastridge Center

