



COUNCIL AGENDA: 1/9/18
FILE: 17-521
ITEM: 4.2

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Margaret McCahan

SUBJECT: SEE BELOW

DATE: December 11, 2017

Approved

D. D. Syl

Date

12/19/17

COUNCIL DISTRICT: 5

SUBJECT: APPROVAL OF A LOAN COMMITMENT TO RESOURCES FOR COMMUNITY DEVELOPMENT FOR THE DEVELOPMENT OF QUETZAL GARDENS, A NEW AFFORDABLE APARTMENT COMMUNITY LOCATED AT 1695 ALUM ROCK AVENUE

RECOMMENDATION

(a) Adopt a resolution:

- (1) Approving up to a total commitment of \$9,984,212 in Low and Moderate Income Housing Asset Funds ("LMIHAF") for a Construction-Permanent Loan to Resources for Community Development, or an affiliated development entity ("RCD" or "Developer"), for the Quetzal Gardens Apartments, a new affordable development to be located at 1695 Alum Rock Avenue ("Site"), in order to offer rent- and income-restricted apartments for 70 extremely low-income and low-income households ("Project"), and authorizing the Director of Housing to negotiate and execute loan documents and all other documents regarding City financing for the Project;
- (2) Approving a loan-to-value ratio of greater than 100% for this loan; and
- (3) Approving a change in the affordability mix of the Project to allow more flexibility without compromising the intent of providing affordable and supportive housing: 47 units will be income-restricted at 30% of Area Median Income ("AMI"); 23 units will be income-restricted to 60% of AMI; and one unit will be an unrestricted manager's unit. All units shall be at 60% AMI for new tenants after the 55th anniversary of the filing of the Notice of Completion or the expiration of the initial term of the restriction.

(b) Adopt the following Fiscal Year 2017-2018 Appropriation Ordinance Amendments in the Low and Moderate Income Housing Asset Fund:

- (1) Decrease the Housing Project Reserve appropriation by the amount of \$8,984,212; and,
- (2) Establish the Committed Projects Reserve in the amount of \$8,984,212.

OUTCOME

Approval of the recommended actions will enable the Developer, RCD, to assemble financing to build a new affordable development at 1695 Alum Rock Avenue in San José. *See Attachment A – Project Overview and Site Map.*

BACKGROUND

In July 2016, following the City Council's direction, the Housing Department – in partnership with the County of Santa Clara ("County") and the Santa Clara County Housing Authority ("SCCHA") – issued a \$48,000,000 Notice of Funding Availability ("NOFA") for the development of affordable housing. The highest priority for the NOFA was the development of housing for the homeless. The NOFA required a long-term ground lease to either the City or the County as a condition of the City's and the County's respective funding commitments.

In response to the NOFA, the Developer submitted a proposal and received a tentative conditional award for the Project. The Project was deemed eligible for 32 project-based vouchers ("PBVs") from SCCHA, supportive service from the County, and a subsidy commitment request to the City Council, as described in this memorandum.

In early 2017, the Developer utilized a \$4,290,000 acquisition loan from the Housing Trust of Silicon Valley to purchase the Site. The City and County have agreed that RCD will enter into a long-term ground lease with the County, as owner of the Site, to facilitate development of the Project.

On August 8, 2017, the City Council approved a Predevelopment Loan of \$1,000,000 for the Project, with an initially proposed unit affordability mix of 17 Extremely Low-Income ("ELI") households at 20% of Area Median Income ("AMI") and 43 Very Low-Income ("VLI") households at 35%-50% of AMI. Since that approval, the Housing Department and Developer have been negotiating final terms for the documents associated with the Predevelopment Loan. The Developer may have the ability to secure predevelopment funding from another source with more favorable terms. Should this occur, the developer will forgo the City's predevelopment funding.

The Developer is also currently pursuing other supplemental construction/permanent funding sources for the Project, including:

- **Measure A Affordable Housing Bond (“Measure A”)**
On September 26, 2017, the County issued a Notice of Funding Availability (“NOFA”) for the Measure A Affordable Housing Bond, a \$950 million general obligation bond that will create new affordable rental and homeowner housing opportunities. The Developer applied for Measure A funds in October 2017 and the County Board of Supervisors appropriated \$9,830,000 in Measure A funds for the Project in early December 2017.
- **Affordable Housing and Sustainable Communities (“AHSC”) Program**
The City Council agenda for January 9 also includes approval of the AHSC application for the Project, as well as funding for other public improvements for the area surrounding the Site, consistent with the AHSC program. Approval of the recommended actions in this memorandum is necessary for the Developer to submit an AHSC application.

In order to apply for all supplementary funding sources, the Developer must obtain a City loan commitment, with revised assumptions for loan-to-value (“LTV”) ratio and affordability mix, as described in this memorandum.

ANALYSIS

City Loan Commitment

The Housing Department recommends the total loan commitment to the Developer of \$9,984,212 to fully effectuate the Project. This funding commitment encompasses \$1,000,000 of predevelopment funding that was previously approved by City Council and \$8,984,212 in new funding.

Previously Approved Predevelopment Loan

The Developer has indicated that they may be able to secure predevelopment funding from another source, thereby underutilizing the City’s \$1,000,000 LMIHAF commitment. The Housing Department seeks approval to allocate any unspent portion of the previously approved \$1,000,000 Predevelopment Loan to the construction portion of the Project, as described below.

Construction-Permanent Loan

The Housing Department recommends that City Council approve a Construction-Permanent Loan amount for up to \$8,984,212 from LMIHAF. The City’s Construction-Permanent Loan commitment is necessary at this time because it will enable RCD to pursue other public and private funding sources for the Project. As noted above, the Developer has already obtained Measure A funding for the Project and will be applying for AHSC funds in January 2018. Accordingly, the Housing Department will require the Developer to seek additional funding sources, such as a competitive State Low Income Housing Tax Credit award to augment the federal award, and Affordable Housing Program funds from the Federal Home Loan Bank. It is worth noting that the City’s Deed of Trust will be recorded against the County’s leasehold. *See Attachment B – Construction/Permanent Sources for the Project.*

By the authority delegated under section 5.06.335 of the Municipal Code, the Director of Housing will negotiate additional terms and execute documents for these loans in accordance with the City Council's approval, if granted, for this Project. If the Developer is unsuccessful in securing augmented funding for the Project, the Housing Department may return to the City Council for consideration of additional construction-permanent financing.

Loan-to-Value Ratio

To determine an estimated LTV ratio for the City's Construction-Permanent Loan, the Housing Department will obtain an appraisal to be prepared for the senior lender shortly before construction closing. The City's LTV policy requires that the LTV ratio not exceed 100% in order to minimize the City's risk of potential loss associated with a loan. However, the deep affordability of the Project increases the need for public subsidies and decreases the Project's market value. This increases the possibility of an increased LTV ratio.

In the event that securing the already approved Predevelopment Loan and the Construction-Permanent Loan on the Site results in an LTV ratio that exceeds the City's LTV policy threshold, the Housing Department recommends approval of an LTV ratio for the Project that is greater than 100%. A higher LTV ratio is considered acceptable because the Project's operating income is expected to be at least 115% of the permanent mortgage debt service payments. This formula is a common standard of financial feasibility and will be used by the senior permanent lender.

Affordability Unit Mix/Area Median Income Levels

Since approval of a Predevelopment Loan in August 2017, the Developer has proposed a new unit mix, as follows: 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). A total of 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 Housing Department recommends that this adjustment to the general parameters for the Project be approved by City Council because it will position the Project to be more competitive for alternative funding sources, yet will not compromise the intent of providing affordable and supportive housing for vulnerable residents. *See Attachment C – Unit and Proposed Income Mix.*

Next Steps

If RCD is able to obtain all necessary funding commitments for the Project, they will apply for Low Income Housing Tax Credits and a Tax-exempt Bond Allocation in June 2018. Construction would initiate in January 2019 and conclude in January 2021. *See Attachment D – Anticipated Development Timeline.*

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 Memos. In addition, the Housing Department posts periodic reports on the status of its affordable properties undergoing rehabilitation or construction to its website, www.sjhousing.org. If the recommended actions are approved and Quetzal Gardens successfully closes construction financing, it would be included in these Quarterly Production Reports.

POLICY ALTERNATIVES

To arrive at this proposal, Housing Department staff considered the following options:

Recommendation #1

Alternative: *The City Council could deny the request for funding to the Developer for the Project.*

Pros: The funds being requested could be used for other affordable housing developments.

Cons: The City will lose an opportunity to provide housing for homeless individuals and families currently residing in San José.

Reason for not recommending: The proposed Project will help to meet the demand for deeply affordable housing that is affordable to the most vulnerable homeless individuals and families. The Project will help the City fulfill its affordable housing goals.

Recommendation #2

Alternative: *The City Council could deny the request to modify the Project's affordability mix reverting to the original mix described in the memorandum.*

Pros: The Project would serve more individuals and families in income ranges from 31-60% AMI.

Cons: The Project would be ineligible for Measure A funding and less competitive for AHSC funding.

Reason for not recommending: The Developer's ability to secure County Measure A and AHSC funding is necessary for the Project to be developed.

PUBLIC OUTREACH

Prior to City Council's approval of the Project's entitlements, the Developer implemented a comprehensive outreach plan to engage with the community to provide information, to answer questions, and to better understand the concerns of the neighborhood residents and businesses. From August 2016 to May 2017, the Developer hosted a total of 13 neighborhood or community meetings that were attended by more than 200 community members. These meetings addressed a wide array of topics such as Project design, services, and property management. In addition, this memorandum will be posted on the City's Council Agenda for January 9, 2018.

COORDINATION

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

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 José Municipal Code.

FISCAL/POLICY ALIGNMENT

This expenditure is consistent with the following policy documents: *The City's Envision 2040 General Plan* and the *2014-23 adopted Housing Element* in that it will help the City meet its Regional Housing Needs Allocation; the City's current *Housing Investment Plan* in that it will increase San José's supply of affordable housing; the *City's 2015-20 HUD Consolidated Plan* in that it will provide rental apartments affordable to very low- and extremely low-income households; and the *Community Plan to End Homelessness* approved by the City Council in February 2015 in that it will provide supportive housing for formerly homeless residents.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION:

<u>USES</u>	<u>UP TO AMOUNTS</u>
Predevelopment Loan (previously approved)	\$1,000,000
Construction-Permanent Loan	\$8,984,212
TOTAL	<u>\$9,984,212</u>

2. SOURCE OF FUNDING: \$9,984,212 from Low and Moderate Income Housing Asset Fund (Fund 346).

3. FISCAL IMPACT: Funding in the amount of \$1,000,000 has been previously appropriated in the Low and Moderate Income Housing Asset fund for predevelopment activities. The balance is recommended as part of this memorandum to be placed in a Committed Projects Reserve appropriation (\$8,984,212) until funds are needed. It is currently anticipated that these funds will be needed in 2018-2019 and budget actions will be brought forward at that time to align the budget with the project schedule. There is no on-going fiscal impact to the General Fund as a result of this action.

BUDGET REFERENCE

The table below identifies fund and the appropriations proposed to fund the actions recommended as part of this memorandum.

Fund #	Appn #	Appn. Name	Total Appn	Recom. Budget Action	2017-2018 Operating Budget Page	Last Budget Action (Date, Ord. No.)
346	8437	Housing Project Reserve	\$53,383,000	(\$8,984,212)	1011	6/20/2017, 29962
346	New	Committed Projects Reserve	N/A	\$8,984,212	N/A	N/A

CEQA

Exempt, File No. CP17-009, per CEQA Section 15332 In-Fill Development Projects.

/s/
JACKY MORALES-FERRAND
Director, Housing Department


MARGARET MCCAHAN
Budget Director

For questions, please contact Division Manager, Patrick Heisinger at (408) 975-2647.

- Attachment A: Project Overview and Site Map
Attachment B: Construction/Permanent Sources for the Project
Attachment C: Unit and Proposed Income Mix
Attachment D: Anticipated Development Timeline

ATTACHMENT A

Quetzal Gardens Apartments Project Overview and Site Map



Development Team

Developer	Resources for Community Development
Limited Partnership	Quetzal Gardens, LP
Architect	SGPA Architecture and Planning
Service Provider	Abode Services
Property Management	The John Stewart Company

Project Summary

Address	1695 Alum Rock Avenue
Urban Village Plan	Alum Rock Urban Village Plan
Development Type	New Construction
Construction Type	Four Floors of Type III-A over Two Floors of Type 1-A
Parking Type	On Grade Podium – 2 stories
Residential Parking Spaces/Ratio	68 spaces/71 units = .96 spaces per unit
Commercial Parking Spaces	26 spaces – minimum required
Housing Type	Affordable plus Permanent Supportive Housing
Lot size	.74 acres (32,427 SF)
Units	70 units and 1 two-bedroom manager unit
Density	95.9 Dwelling Units/Acre
Gross Building Area	107,655 SF
Commercial Space	12,175 SF
Parking Space	31,731 SF
Residential Space	63,749 SF
Number of Project Based Vouchers	32
Prevailing Wages?	Yes
Developer's Compliance History	First loan between the RCD and City

ATTACHMENT A – Continued

Quetzal Gardens Apartments
Site Map



ATTACHMENT B

Quetzal Gardens Apartments Construction/Permanent Sources Plan for the Project

CONSTRUCTION SOURCES	Amount
Tax Exempt Construction Loan	\$31,226,580
AHSC	\$0
City of San Jose Loan	\$9,478,682
City of San Jose Accrued/Deferred Interest	\$505,530
County Measure A Loan	\$9,478,682
City of San Jose CDBG	\$500,000
FHLB AHP Loan	\$1,050,000
Costs Deferred until Conversion	\$1,915,888
GP Equity	\$1,150,000
LP Equity	\$3,193,112
TOTAL CONSTRUCTION SOURCES	\$58,498,473

PERMANENT SOURCES	Amount
Tax Exempt Permanent Loan	\$5,898,169
AHSC	\$8,000,000
City of San Jose Loan	\$9,478,682
City of San Jose Accrued/Deferred Interest	\$505,530
County Measure A Loan	\$9,478,682
City of San Jose CDBG	\$500,000
FHLB AHP Loan	\$1,050,000
Deferred Developer Fee	\$1,150,000
GP Equity	\$1,150,000
LP Equity	\$21,287,410
TOTAL PERMANENT SOURCES	\$58,498,473

ATTACHMENT C

Quetzal Gardens Apartments
Unit and Proposed Income Mix

UNIT SIZE	Up to 30% AMI		60% AMI		Total
	Apts.	Max. income	Apts.	Max. Income	
1-BRs	24	\$26,880	5	\$53,760	28
2-BRs	10	\$32,250	3	\$64,500	14
3-BRs	13	\$37,260	15	\$74,520	28
Unrestricted 2-BR Manager Unit	NA	NA	NA	NA	1
Total	47		23		71

ATTACHMENT D

Quetzal Gardens Apartments Anticipated Development Timeline

Apply for County Funding	October 2017
Apply for AHSC Funding	January 2018
Submit Construction Drawings for Building Permits	August 2018
Apply for Low Income Housing Tax Credits	June 2018
Apply for Tax-exempt Bond Allocation	June 2018
Bond Allocation Award	August 2018
Tax Credit Award	August 2018
Close Financing	December 2018
Start Construction	January 2019
Complete Construction	January 2021