



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Jim Shannon

SUBJECT: SEE BELOW

DATE: September 3, 2020

Approved

Date

9/3/2020

COUNCIL DISTRICT: 2

SUBJECT: APPROVAL OF A LOAN COMMITMENT TO CHARITIES HOUSING DEVELOPMENT CORPORATION OF SANTA CLARA COUNTY FOR THE DEVELOPMENT OF BLOSSOM HILL SENIOR APARTMENTS, A NEW AFFORDABLE APARTMENT COMMUNITY

RECOMMENDATION

- (a) Adopt a resolution:
 - (1) Approving a total commitment of up to \$16,375,000 in Low and Moderate Income Housing Asset Funds and \$2,000,000 in affordable housing impact fees from the Multi-Source Housing Fund for a Construction-Permanent Loan to Charities Housing Development Corporation of Santa Clara County, or an affiliated entity ("CHDC" or "Developer"), for the Blossom Hill Senior Apartments, a new affordable development to be located at 397 Blossom Hill Road ("Site"), which is being developed to offer 147 rent--and income--restricted apartments for extremely low-income and very low-income senior households and two unrestricted manager's unit ("Development");
 - (1) Authorizing the Director of Housing to negotiate and execute loan documents, amendments and all other documents, including any amendments thereto, related to the City financing for the Development; and
 - (2) Approving a loan-to-value ratio of greater than 100% for this loan.
- (b) Adopt the following 2020-2021 Appropriation Ordinance Amendments in the Low and Moderate Income Housing Asset Fund:
 - (1) Decrease the Housing Project Reserve appropriation by \$16,375,000; and
 - (2) Increase the appropriation to the Housing Department for Housing Loans and Grants by \$16,375,000.
- (c) Adopt the following 2020-2021 Appropriation Ordinance Amendments in the Multi-Source Housing Fund:
 - (1) Decrease the Housing Project Reserve appropriation by \$2,000,000; and
 - (2) Increase the appropriation to the Housing Department for Housing Loans and Grants by \$2,000,000.

OUTCOME

Approval of the recommended actions will enable the Developer, CHDC, to assemble financing to build a new affordable development at 397 Blossom Hill Road in San José. This development will provide affordable housing for 147 senior households in San José, including 49 apartments for formerly homeless individuals. The expected start date for construction to begin is June 2021, contingent upon funding being secured. **Attachment A** provides an overview and site map for the Development.

EXECUTIVE SUMMARY

In response to the \$100 million Notice of Funding Availability issued in 2018, CHDC submitted a Development proposal with a request for a commitment of funding in the amount of up to \$18,375,000 to provide 147 affordable apartments for seniors, which will include a set-aside of 49 units as permanent supportive housing. This Development plans to use funds from the City's Low and Moderate Income Housing Asset funds, County of Santa Clara (County) Measure A, Low Income Housing Tax Credits, and Tax-Exempt Multi-Family Housing Revenue Bonds. Approval of this funding commitment will allow the developer to submit an application to the California Debt Limit Allocation Committee.

BACKGROUND

On August 31, 2018, following the City Council's direction, the Housing Department issued a \$100,000,000 Notice of Funding Availability ("NOFA") for the development of affordable housing for extremely low income, very low-income, and low-income individuals and families. The NOFA prioritized projects that provided housing for homeless households, that achieved cost effectiveness, and that leveraged additional non-City sources of financing.

In response to the NOFA, the Developer submitted a project proposal with a request for a commitment of funding in the amount of up to \$18,375,000 to provide 147 affordable apartments, which will include a set aside of 49 units for permanent supportive housing ("PSH"). The PSH units will have Project-Based Vouchers ("PBVs"), and the supportive services provided by the County of Santa Clara. There will be 48 units at 30% AMI, 48 units at 40% AMI, and 49 units at 50% AMI (these being the PSH units). Finally, there will be one three-bedroom manager's unit and one two-bedroom manager's unit, for a total of 147 apartments. The Development will receive supportive services from the County, and on-site service coordination from Catholic Charities of Santa Clara County.

The NOFA guidelines stated that the City would allocate funding at \$125,000 per unit, and as result of the NOFA, the Blossom Hill Senior Apartments was tentatively awarded \$125,000 per unit or \$18,375,000. The Developer has requested that approximately \$17,083,885 be made available to use during the construction period with approximately \$1,291,115 as a projected

interest reserve during the construction period. (*See Attachment B - Construction/Permanent Sources for the Development*)

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

- **City of San José Tax-Exempt Multi-Family Housing Revenue Bonds (“City Bonds”)**
The Developer is requesting the City to issue \$38,259,830 in tax-exempt multifamily housing revenue bonds to, in part, finance the Development and intends to apply for the September 24, 2020 Tax Credit Allocation Committee and California Debt Limit Allocation Committee joint application funding Round. Awards are anticipated to be announced by CDLAC in December 2020.
- **Measure A Affordable Housing Bond (“Measure A”)**
On September 26, 2017, the County issued a 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 County Board of Supervisors appropriated \$19,083,540 in Measure A funds for the Development in December of 2018.
- **Additional County Financing**
The County of Santa Clara Office of Supportive Housing is requesting additional gap financing of approximately \$3,453,785¹ in permanent funding from the Board of Supervisors. This commitment is scheduled to be presented at the September 22, 2020 Board of Supervisors meeting.

To be competitive when applying for bonds and tax credits, the Developer must obtain a City loan commitment, as described in this memorandum.

ANALYSIS

The Blossom Hill Senior Apartments Development presents an opportunity to provide 147 homes for seniors including unhoused seniors in the Blossom Hill and Snell area of San José. The Development is designed to meet the needs of senior residents and prioritizes sustainability and environmentally friendly features such as solar panels, energy-efficient fixtures, Energy Star appliances and a Build-It-Green environmental design certification. The Development is centrally located, seniors from this community will have grocery, pharmacy, restaurants, various retail shopping, light rail and bus connections within walking distance from their home. The Development intends to offer a variety of on-site supportive services for the residents, which will create approximately 15 new job opportunities in San José with additional commercial space that is prioritized for community-oriented health and service agencies. The Development team is an experienced partnership of development, property management and services staff which has

¹ *As of Developer’s Proforma Submitted to City of San Jose Housing Department on 8/26/2020*

completed nearly 25 Bay Area projects over the last 25 years. The Developer has secured approval of Measure A funding from the County in December of 2018. The City's Construction-Permanent Loan commitment to the Developer of up to \$18,375,000 is necessary at this time because it will enable CHDC to leverage their public financing in order to be competitive for Tax Credits and other public and private funding sources.

Construction-Permanent Loan

The Housing Department recommends that City Council approve a Construction-Permanent Loan amount for up to \$18,375,000 from in Low and Moderate Income Housing Asset Funds, which equates to \$125,000 per unit. Capitalized interest from the construction phase is included in the financing for this Development because a portion of the City funds will be used during the construction phase and the accrued interest will be capitalized into the permanent financing up to the maximum of \$18,375,000. The City's Construction-Permanent Loan commitment will represent approximately 21% of the total financing for the Development. The City's loan will be structured consistent with its underwriting guidelines and policies and will be repaid through a share of the Development's net cash flow. Final loan terms will be underwritten, negotiated, and determined as the Development approaches construction loan closing. The final loan terms will be documented through the Director's Delegation of Authority.

The County's Measure A funds will fund, in part, its purchase of the land from the Developer. The County will own the land and lease it to the Developer. The City's Deed of Trust and the City's leasehold affordability restrictions will be recorded against the County's leasehold. See Attachment B for a summary of the construction/permanent sources for the Development.

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 Development. If the Developer is unsuccessful in securing augmented funding for the Development, the Housing Department may return to the City Council for consideration of additional construction-permanent financing.

Loan-to-Value Ratio

An appraisal that will be prepared for the senior lender before construction closing is expected to result in a combined loan-to-value ratio ("LTV") that significantly exceeds 100%, which is the City's LTV policy threshold. The 100% LTV policy was intended to reduce the City's risk of loss associated with its loans; however, the deep affordability of the development increases the need for public subsidies, while decreasing the Development's market value, leading to an increased LTV. An elevated LTV is not uncommon for public lenders in the affordable housing industry. Developments that have a high LTV are considered acceptable by City staff, if the Development's projected operating income is expected to be at least 1.15 times the permanent mortgage debt service payments, as is the case in this Development. This is a common standard for assessing the financial feasibility of affordable housing developments.

The security for a City loan with a high LTV is that the development will be constructed and begin permanent operations during the period in which the City receives loan repayments as a portion of Development net cash flow. This is particularly true for affordable housing developments, as the use of public funds creates requirements for affordably-restricted apartments, and a contractual cash flow share for developments. Therefore, a site cannot be easily liquidated should a proposed development not proceed. This approval will enable the Development to move forward with obtaining tax credits, financing from a senior lender, and an investor, therefore enhancing the City’s repayment potential. For these reasons, a Loan-to-Value ratio over 100% is warranted.

Affordability Unit Mix/Area Median Income Levels

The Developer proposes to build a unit mix as follows: 49 apartments restricted to VLI households at 50% of AMI (a household of one earning approximately \$55,300 annually), 48 restricted to Very Low-Income households at 40% of AMI (a household of one earning approximately \$44,240 annually), and 49 restricted to Extremely Low-Income households at 30% of AMI (a household of one earning \$33,150 annually). The Development will include 49 permanent supportive housing units for the chronically homeless. The Housing Department finds that this unit combination will help meet priorities expressed by City Council and it will position the Development to be competitive for alternative funding sources. It will further serve the goal of providing affordable and supportive housing for homeless and vulnerable seniors. Fig.1 below demonstrates the unit sizes and a breakdown of affordability restrictions for the 147 units.

Fig. 1 – Unit Mix: Blossom Hill Senior Apartments

Unit Size	Up to 30% AMI		% of Units	Up to 40% AMI		% of Units	Up to 50% AMI		% of Units	Mgr Unit	Total
	Units	Max Income		Units	Max Income		Units	Max Income			
Studio	39	\$ 37,900	27%	39	\$ 50,560	27%	39	\$ 63,200	27%		117
1 BR	5	\$ 37,900	3%	5	\$ 50,560	3%	5	\$ 63,200	3%		15
2 BR	4	\$ 47,350	3%	4	\$ 63,160	3%	5	\$ 78,950	3%	1	14
3 BR										1	1
Total	48		33%	48		33%	49		33%	2	147

****Maximum incomes limits are based upon HCD occupancy guidelines of 1 person per bedroom, plus 1.**

CONCLUSION

If CHDC is able to obtain all necessary funding commitments for the Development, they will apply for Low Income Housing Tax Credits and a Tax-exempt Bond Allocation in September 2020. The allocation should occur in December of 2020. Staff will return to Council for approval of the Bond Issuance, which would occur within 180 days of allocation. Construction would initiate in June 2021 and conclude in February 2023. **Attachment C** provides an anticipated development timeline for the Development.

EVALUATION AND FOLLOW-UP

The Housing Department produces periodic 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 Page Street successfully closes construction financing, it would be included in these Quarterly Production Reports.

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more Climate Smart San José energy, water, or mobility goals. The Development prioritizes environmentally friendly features such as solar panels, energy-efficient fixtures, Energy Star appliances and a Build-It-Green environmental design certification. The Development is centrally located, seniors from this community will have grocery, pharmacy, restaurants, various retail shopping, light rail and bus connections within walking distance from their home.

POLICY ALTERNATIVES

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

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

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

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

Reason for not recommending: The proposed Development is a viable opportunity to meet the demand for deeply affordable housing for the most vulnerable homeless individuals and seniors. The Development will help the City fulfill its affordable housing goals and will provide additional employment opportunities for 15 or more property management, supportive services and case management jobs.

PUBLIC OUTREACH

Prior to City Council's approval of the Development's entitlements on December 17, 2019 CHDC 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 November 2017 to August 2019, the Developer hosted a total of 23 neighborhood or community meetings, attended by neighborhood associations, local faith-

based organizations, various advocacy groups and community members, addressing a wide array of topics regarding the Development. Many of the community’s comments and suggestions were incorporated into the development. Ultimately, the Development received community support.

This memorandum will be posted on the City’s Council Agenda website for the September 15, 2020 Council Meeting.

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 increases 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 is providing supportive housing for formerly homeless residents.

COST SUMMARY/IMPLICATIONS

1. Estimated Costs:

Uses	Amount
Construction Loan	\$ 17,083,885
Projected Interest Reserve	\$ 1,291,115
Total “Up To” Permanent Loan Amount	\$18,375,000

2. SOURCE OF FUNDING: \$16,375,000 from Low and Moderate Income Housing Asset Fund (Fund 346); \$2,000,000 in affordable housing impact fees from the Multi-Source Housing Fund.

3. **FISCAL IMPACT:** Funding in the amount of \$16,375,000 has been reserved in the Low and Moderate Income Housing Asset fund and \$2,000,000 in affordable housing impact fees from the Multi-Source Housing Fund is recommended as part of this memorandum to be appropriated to the Housing Loans and Grants appropriations to encumber and draw upon when constructed is initiated in Summer 2021. There is no on-going fiscal impact as a result of this action.

BUDGET REFERENCE

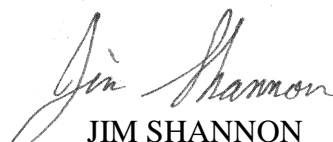
Fund #	Appn #	Appn. Name	Total Appn	Budget Action	2020-2021 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
346	8437	Housing Project Reserve	\$70,000,000	(\$16,375,000)	IX-57	06/23/20 Ord. 30437
346	0070	Housing Loans and Grants	\$48,339,960	\$16,375,000	IX-56	06/23/20 Ord. 30437
448	8437	Housing Project Reserve	\$11,697,732	(\$2,000,000)	IX-72	06/23/20 Ord. 30437
448	0070	Housing Loans and Grants	\$2,400,00	\$2,000,000	IX-72	6/30/20 Ord 30449

*The 2020-2021 Proposed Operating Budget was adopted by the City Council on June 23, 2020.

CEQA

Mitigated Negative Declaration for the Blossom Hill Mixed-Use Project, File Nos. CP18-022 and T18-034.

/s/
JACKY MORALES-FERRAND
 Director, Housing Department



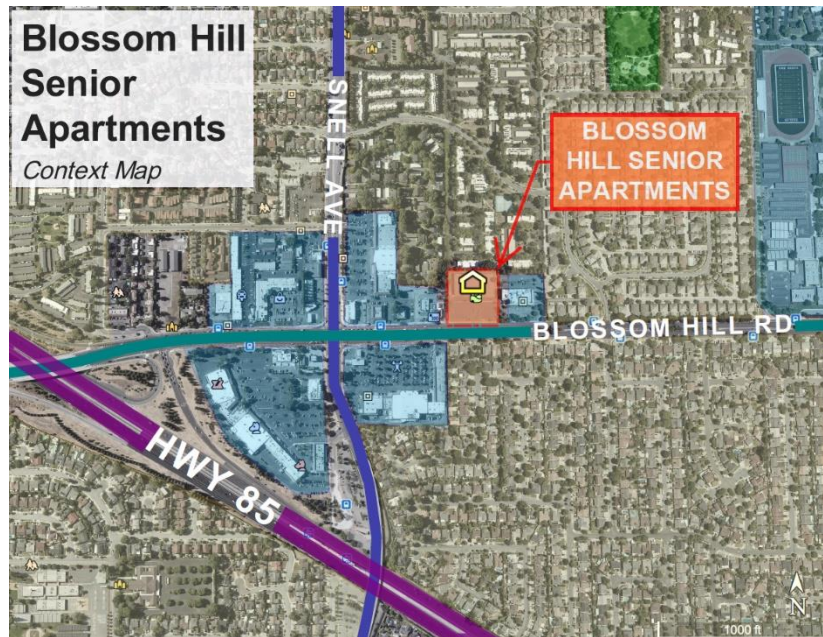
JIM SHANNON
 Budget Director

For questions, please contact Division Manager, Kemit Mawakana at (408) 535-3851.

- Attachment A: Development Overview and Site Map
- Attachment B: Construction/Permanent Sources for the Development
- Attachment C: Anticipated Development Timeline

Attachment A: Development Overview and Site Map

Charities is proposing to develop a 147-unit four-story mixed-use development. The ground level will be a combination of services, commercial, management, amenities and parking. All residential units will be on floors 2-4. All residential units are fully equipped with kitchens and bathrooms that are ADA adaptable. Charities intends to lease the commercial space to senior-focused social service and health providers which will be available to the residents as well as the larger surrounding community during normal business hours.



Resident services will have expertise focused on senior health, socialization, & support with the goal of prolonging residents' independence. A full-time service coordinator will be available on-site whose role is to assess the needs of the residents & act as a navigator for the residents to connect them with the myriad of services that exist throughout the County of Santa Clara. The services offered include but are not limited to transportation sourcing, social events, holiday celebrations, educational programs, & linkage to other community services. The County of Santa Clara will provide services or contract with an experienced, local service agency, to provide intensive case management services to residents who have a disabling condition. These services include but are not limited to case management, supporting self-sufficiency, benefits coordination, and improvement of health & wellness. In addition to the services mentioned above, Charities intends to work with Second Harvest Food Bank to deliver nutritious food periodically to all residents.



Attachment B: Construction/Permanent Sources for the Development***As of Developer's Proforma Submitted to Housing Dept. on 8/26/2020***Sources of Funds - Permanent**

Loan	Amount
Tax Exempt Perm Loan – Tranche A	\$ 7,112,000
Tax-Exempt Perm Loan – Tranche B	\$ 6,097,000
City of San Jose	\$ 18,375,000
County of Santa Clara Measure A	\$ 10,083,541
Deferred Developer Fee	\$ 1,607,365
Additional County of Santa Clara Loan	\$ 3,453,785
Capital Contributions	
<i>General Partner</i>	\$ 4,156,549
<i>Limited Partner</i>	\$ 25,646,490
TOTAL	\$ 76,531,730

Sources of Funds - Construction

Loan	Amount
Tax Exempt Construction Loan	\$ 38,816,220
Taxable Construction Loan	\$ -
City of San Jose	\$ 17,083,885
County of Santa Clara Measure A	\$ 10,083,541
Costs Deferred Until Conversion	\$ 2,219,520
Additional Gap Financing TBD	
Deferred Developer Fee	\$ 1,607,365
Capital Contributions	
<i>General Partner</i>	\$ 4,156,549
<i>Limited Partner</i>	\$ 2,564,649
TOTAL	\$ 76,531,730

Sources of Funds - Acquisition

Loan	Amount
County of Santa Clara Measure A	\$ 9,000,000

Attachment C: Anticipated Development Timeline

Submitted Construction Drawings for Building Permits	May 2020
Apply for CDLAC/TCAC	September 2020
Bond Allocation Award	December 2020
Close Financing	May 2021
Start Construction	June 2021
Complete Construction	February 2023