



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jacky Morales-Ferrand  
Jim Shannon

**SUBJECT:** SEE BELOW

**DATE:** May 24, 2022

Approved

Date

05/24/22

**COUNCIL DISTRICT: 3**

**SUBJECT: ACTIONS RELATED TO SECOND STREET STUDIOS PROJECT  
LOCATED AT 1144 SECOND STREET**

## RECOMMENDATION

Adopt a resolution:

- (a) Approving an increase to the existing City Council-approved construction-permanent loan commitment to First Community Housing for the Second Street Studios project located at 1144 South Second Street by \$1,000,000 in low- and moderate-income housing asset funds from \$19,158,673 to \$20,158,673 (Project);
- (b) Authorizing the Director of Housing to negotiate and execute loan documents and all other documents regarding City of San José construction and permanent financing for the project, including any amendments or modifications thereto; and
- (c) Adopt the following appropriation ordinance amendments in the Low- and Moderate-Income Housing Asset Fund:
  - (1) Decrease the Housing Project Reserve by \$1,000,000; and
  - (2) Increase the Housing Loans and Grants appropriation to the Housing Department by \$1,000,000.

## OUTCOME

Approval of the recommended actions will enable First Community Housing (FCH) receive financing for the Second Street Studios project to address physical needs of the building to support the residents living in this new community.

## **BACKGROUND**

Second Street Studios was completed and fully leased in August 2019. Since that date, the City of San José, the County of Santa Clara and FCH have worked together to address physical needs of the development to support the residents and stabilize the operations. The City recommends increasing the existing \$19,158,673 loan, to a legal entity controlled by FCH, for the Second Street Studios development to fund additional capital improvements needed onsite.

City staff worked over the past few months with key partners, the community, and residents of Second Street Studios, to identify needed physical improvements and services for the property to stabilize operations. The County of Santa Clara has agreed to focus on the additional safety and service needs at the building which include providing funding to increase the number of security guards at the site as well as improving the coordination of services across the service providers and property management team. The City committed to additional funding for physical improvements needed at the site to improve the overall quality of life for Second Street Studios residents.

### ***Key Highlights of the Plan***

- **Repair to Apartments** – Second Street Studios apartments have experienced an increase of fire/water damage incidents that have resulted in major costs to the project. Many of these costs are not covered by insurance, are less than the deductible in the insurance policy, or the impact on their insurance costs would be substantial.
- **Security** – Second Street Studios needs to improve the safety and security of the project. Proposed investments include installation of speakers with cameras that allow security and property management to review camera imaging from the security booth and allow for communication over speakers located at exits where there is limited monitoring capability. Additional security improvements should help secure the site.
- **Wellness** – The health and wellbeing of the tenants needs to be addressed by increasing and enhancing project amenities. The proposal includes exercise equipment for the residents, building signage, and additional common area furniture.
- **Storage** – The property lacks sufficient storage space for its residents. The property will benefit from metal containers to store furniture during unit turnover and to prevent bed bug infestation by storing items away from the property while in process to be removed from the site.

## **ANALYSIS**

On June 30, 2021, Buis Construction Services conducted a site visit to review the condition of the existing improvements and review identified upgrades designed to prevent or reduce the

damage caused by fire and/or water incidents and increase security. As a result, the Housing Department, in consultation with Buis Construction Services and FCH, concluded that investment in preventive fire and/or water measures and increased security would result in long-term cost savings and minimize risk by reducing tenant-caused fire and/or water incidents and improve safety and security capabilities to the Project.

On February 10, 2022, FCH co-hosted a meeting with the Spartan Keyes Neighborhood Association to highlight and address the community’s concerns and identify areas that would enhance the operations of the Second Street Studios project. In addition, monthly community meetings are held at the second-floor courtyard of the property on the first Wednesday of every month. Community meetings are open to all residents. FCH completed an analysis of investment opportunities that would:

- 1) Address waterproofing and flood prevention measures, including waterproofing units and adding drains in the hallways;
- 2) Enhance security and communication efforts, particularly in unmanned stairwells where the majority of unauthorized guests have been entering;
- 3) Increase access to storage containers to dispose of unwanted furnishings and hoarding;
- 4) Purchase durable, stain- and bug-resistant common area furniture;
- 5) Invest in the health and wellbeing of the residents through resident requested gym equipment; and
- 6) Add signage to the property, as requested by residents, to clearly indicate the location of their homes.

The Housing Department recommends that the City allocates \$1.0 million from the Low and Moderate Income Housing Asset Fund to provide for physical improvements at the site. These additional funds will not only be an investment in the long-term durability of the project by decreasing fire and/or water damages and improve safety and security, but also in the health and wellbeing of the tenants. Below is a breakdown of the investments.

<b>Investment</b>	<b>Amount</b>
Waterproofing north wing of building (apartments and hallways)	\$530,000
Drains in hallways	\$250,000
Additional security system (speakers with cameras)	\$35,000
Storage	\$15,000
Common area furniture	\$30,000
Signage	\$20,000
Gym equipment	\$20,000
Contingency	\$100,000
<b>Total</b>	<b>\$1,000,000</b>

## **CONCLUSION**

Once City Council approves the recommendations in this memorandum, the Housing Department will immediately work with FCH to fund the \$1,000,000 in recommended investments to the property. It is anticipated that the work will be completed within a 12-month period after City Council approval.

## **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, any additional actions would be summarized in those memoranda. In addition, the Housing Department posts to its website, [www.sjhousing.org](http://www.sjhousing.org), periodic reports on the status of its affordable properties undergoing rehabilitation or construction.

## **CLIMATE SMART SAN JOSE**

This recommendation has no effect on Climate Smart San José energy, water, or mobility goals.

## **POLICY ALTERNATIVES**

To arrive at this proposal, staff considered the following option:

### ***Alternative: Deny the requested funding commitment***

**Pros:** The additional funds requested could be used for other affordable housing developments within the City of San José.

**Cons:** The City will lose an opportunity to invest in much needed fire and/or water mitigation solutions that would increase the life and durability of the project and meet the needs of the health and wellbeing of the residents.

**Reason for not recommending:** The proposal is a viable opportunity to support the needs of a deeply affordable housing opportunity for vulnerable individuals in an inclusive setting.

## **PUBLIC OUTREACH**

On February 10, 2022, FCH co-hosted a meeting with the Spartan Keyes Neighborhood Association to highlight and address the community's concerns and identify areas that would enhance the operations of the Second Street Studios project. Monthly community meetings take place on the first Wednesday of every month at the property.

## **COORDINATION**

Preparation of this report was in coordination 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 and acquisition do not fall under the functions, powers, and duties of the commission delineated in Section 2.08.2840 of the San José Municipal Code.

## **COST SUMMARY/IMPLICATIONS**

The original permanent loan is \$19,158,673; with the recommended additional funding of \$1.0 million, it will bring the "up to" permanent loan amount to \$20,158,673. As recommended as part of this memorandum, \$1.0 million will be reallocated from the Housing Project Reserve to increase the funding to the Housing Loans and Grants appropriation in the Low and Moderate Income Housing Asset Fund. Once appropriated, the funds will be encumbered and drawn upon to address facility improvement construction costs at the Second Street Studios property. There is no ongoing fiscal impact to the General Fund as a result of this action.

May 24, 2022

**Subject: Actions Related to Second Street Studios Project Located at 1144 Second Street**

Page 6

**BUDGET REFERENCE**

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

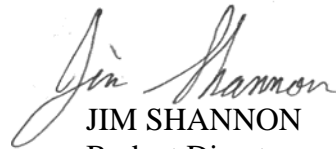
Fund #	Appn #	Appn. Name	Total Appn.	Rec. Budget Action	2021-2022 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
346	8437	Housing Project Reserve	\$73,115,775	(\$1,000,000)	984	02/08/22 Ord. 30717
346	0070	Housing Loans and Grants	\$74,668,057	\$1,000,000	984	10/19/21 Ord. 30682

**CEQA**

Categorically Exempt, File No. ER22-100, CEQA Guidelines Section 15301, Existing Facilities.

/s/

JACKY MORALES-FERRAND  
Director, Housing Department



JIM SHANNON  
Budget Director

The primary author of this memorandum is Isaac Orona, Development Officer. For questions, please contact Rachel VanderVeen, Deputy Director of Housing, at [Rachel.VanderVeen@sanjoseca.gov](mailto:Rachel.VanderVeen@sanjoseca.gov) or (408) 535-8231.