



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Jim Shannon

SUBJECT: SEE BELOW

DATE: June 9, 2022

Approved

Date

6/10/2022

COUNCIL DISTRICTS: 3, 5 & 6

**SUBJECT: ACTIONS RELATED TO THE LOAN COMMITMENTS FOR FOUR
NEW AFFORDABLE HOUSING DEVELOPMENTS**

RECOMMENDATION

(a) Adopt a resolution:

(1) Approving a total commitment of up to \$53,050,885 in Low- and Moderate-Income Housing Asset Funds or such other special funds as the City may designate and Measure E Funds for Construction-Permanent Loans to the following developments:

- i. UrbanCo-Tamien, LLC, affiliated with Core Communities in partnership with Republic Urban, or an affiliated development entity (Core) for the Tamien Station Affordable Development (Tamien Station) located at 1197 Lick Avenue, which is being developed to provide 134 affordable rent-restricted apartments and one unrestricted manager's home in an amount not to exceed \$16,750,000 in Low and Moderate-Income Housing Asset funds;
- ii. Charities Housing Development Corporation of Santa Clara County or an affiliated development entity (Charities Housing) for The Charles Development (The Charles) located at 551 Keyes Street, which is being developed to provide 97 affordable rent-restricted apartments and two unrestricted manager's homes in an amount not to exceed \$9,675,885 in Measure E funds;
- iii. Charities Housing Development Corporation of Santa Clara County or an affiliated development entity (Charities Housing) for the Alum Rock Multifamily Development (1860 Alum Rock) located at 1860 Alum Rock Avenue, which is being developed to provide 59 affordable rent-restricted apartments and one unrestricted manager's home in an amount not to exceed \$7,500,000 in Measure E funds;
- iv. Danco Communities or an affiliated development entity for the West San Carlos Residential Development (777 West San Carlos) located at 777 West San Carlos Street, which is being developed to provide 153 rent-restricted apartments and one unrestricted manager's home in an amount not to exceed \$19,125,000 in Low- and Moderate-Income Housing Asset funds;

(2) Authorizing the loan terms to allow an increase in the rents and income restrictions up to

- 60% Area Median Income (low-income) for new tenants in project-based voucher subsidized units in the event of expiration or termination of the contract for Project Based Vouchers for: The Charles, 1860 Alum Rock, and 777 West San Carlos, and for all new tenants for all four projects in the event of foreclosure, to the extent the City has determined such increase is needed for the feasibility of the above developments and allowed by other funds;
- (3) Authorizing the Director of Housing to negotiate and execute loan documents and all other documents, including any amendments thereto, related to City financing for the above developments; and
 - (4) Approving a loan-to-value ratio of greater than 100% for the loans above.
- (b) Adopt a resolution:
- (1) Approving a grant of up to \$247,500 in American Rescue Plan Funds to Danco Communities or an affiliated development entity for costs associated with the development of the proposed childcare center to be located within the 777 West San Carlos residential development; and
 - (2) Authorizing the Director of Housing to negotiate and execute all necessary documents for the grant related to the funds for the childcare center.
- (c) Adopt the following Fiscal Year 2022-2023 Appropriation Ordinance amendments in the General Fund:
- (1) Decrease the Measure E – 40% Extremely Low-Income Households Reserve by \$8,701,377;
 - (2) Decrease the Measure E – 30% Low-Income Households Reserve by \$8,474,508;
 - (3) Establish the Measure E – 40% Extremely Low-Income Households appropriation to the Housing Department in the amount of \$8,701,377; and
 - (4) Establish the Measure E – 30% Low-Income Households appropriation to the Housing Department in the amount of \$8,474,508.
- (d) Adopt the following Fiscal Year 2022-2023 Appropriation Ordinance amendments in the Low and Moderate Income Housing Asset Fund:
- (1) Decrease the Housing Project Reserve appropriation by \$35,875,000; and
 - (2) Increase the Housing Loans and Grants appropriation to the Housing Department by \$35,875,000.

OUTCOME

Approval of the recommended actions will enable UrbanCo-Tamien, LLC, Charities Housing, and Danco Communities (each, a Sponsor) of four projects: 1) Tamien Station, 2) The Charles, 3) 1860 Alum Rock, and 4) 777 West San Carlos to assemble financing to build 448 new affordable apartments for a period of at least 55 years following completion. These developments will provide 248 extremely low-income units, 78 very low-income units, and 118 low-income units. Additionally, 227 family apartments with two or more bedrooms will be available after completion of these four developments. Further, 283 units will be set-aside for subsidy assisted individuals and households, of which 197 units are intended for Rapid Rehousing for individuals and families who have experienced homelessness and 86 units will be supported by Project Based Vouchers for at least 20 years.

Approval of the recommended action will also allow the City loans for the developments to increase rents and income restrictions up to a 60% AMI, if needed, to ensure the developments continued financial feasibility. The increase will apply to new tenants in subsidized units in the event of expiration or termination of subsidy contracts, and for all tenants in the event of foreclosure.

EXECUTIVE SUMMARY

In response to the \$150 million Notice of Funding Availability (NOFA) released on December 20, 2021, UrbanCo-Tamien, LLC, Charities Housing, and Danco Communities submitted the four projects listed in this memorandum for a funding commitment totaling \$53,050,885 to develop a total of 448 apartments for extremely low-, very low- and low-income individuals and families. The projects applied for the following funding amounts: Tamien Station up to \$16,750,000 for 135 apartments, The Charles up to \$9,675,885 for 99 apartments, 1860 Alum Rock up to \$7,500,000 for 60 apartments, and 777 West San Carlos up to \$19,125,000 for 154 apartments. See Table 1 below.

These developments plan to use funds from the City's Low and Moderate Income Housing Asset Fund, Measure E Real Property Transfer Tax Revenue, and American Rescue Plan funds, as well as County of Santa Clara (County) Measure A and Tax-Exempt Multi-Family Housing Revenue Bonds. It is possible that one of the City's final sources will be federal HOME funding; however, as that source requires it be committed close to construction closing after all other financing is committed, it is not included in this memorandum. Any change of source would be approved under the Department of Housing Director's Delegation of Authority.

Approval of these funding commitments will allow the Sponsors to move forward with an application to the California Debt Limit Allocation Committee (CDLAC) on August 9, 2022.

Table 1: Affordable Housing Development and Childcare Funding Commitments

Development	Source	Award
1860 Alum Rock	Measure E	\$7,500,000
The Charles	Measure E	9,675,885
777 West San Carlos (Housing)	Low and Moderate Income Housing Asset Fund	19,125,000
777 West San Carlos (Childcare)	American Rescue Plan Fund	247,500
Tamien Station	Low and Moderate Income Housing Asset Fund	16,750,000
Total		\$53,298,385

BACKGROUND

On December 20, 2021, under the City Council’s direction, the Housing Department issued a \$150 million NOFA for the development of affordable housing for extremely low-, very low-, and low-income individuals and families. The NOFA prioritized affordable multifamily rental housing projects that will provide housing for extremely low-, very low-, and low-income individuals and families, with 45% of the funding prioritized for extremely low-income housing. In response to the NOFA, the City received 19 applications from 12 sponsors for a request of \$240,901,951 in total funding. Eleven applications requesting \$145,101,951 in funding were scored and selected after a detailed evaluation process based on the NOFA’s thresholds, submission requirements, and project feasibility. Staff initially recommends the four NOFA awarded developments listed in this memorandum for approval of funding commitment, as these commitments will allow the projects to move forward with their respective applications to CDLAC on August 9, 2022, with appropriation announcements expected on November 30, 2022.

In response to the NOFA, the four above Sponsors submitted development proposals with a request for a commitment of funding in the amount of up to \$53,050,885 to provide 443 affordable apartments and five managers’ units.

On [April 26, 2022](#), the City Council approved the Childcare Spending Plan from American Rescue Plan funding for children- and youth- focused programs and services. This action established a plan for \$10.5 million of American Rescue Plan one-time funds to support children- and youth- focused programs and services. As part of this spending plan, \$900,000 was allocated to establish an Affordable Housing Childcare Tenant Improvement Fund within the Housing Department to support the development of childcare facilities in new City-funded affordable housing developments. As a part of the Housing Department’s NOFA process, staff identified new affordable developments that have either included a potential childcare space onsite or would be appropriate for the addition of childcare facilities within the proposed development. The recommendations in this memorandum include awards from this fund.

On June 7, the City Council directed the Housing Department to coordinate with the County's Office of Supportive Housing (OSH) in developing security and safety plans for all sites that have supportive housing. OSH is working with Destination: Home to develop minimum standards and specifications for all sites that have supportive housing, including developments with Rapid Rehousing apartments. The Housing Department will review and provide feedback on the draft standards and specifications prior to adoption by the County's Board of Supervisors. Upon adoption, the standards and specifications will be applied to all sites that have supportive housing, including the developments detailed in this memorandum.

ANALYSIS

This analysis section describes more details of the affordable housing projects recommended to be funded by the City pursuant to the NOFA and the childcare facility to be funded by Childcare Spending Plan.

As the projects are evaluated and scored, and costs are calculated, the amounts may change. All of the above Sponsors will execute preliminary term sheets prior to the CDLAC application acknowledging their commitment to comply with the City underwriting guidelines, to apply City rents to all restricted units, and to inform prospective lenders and limited partners of the need to comply with the City guidelines and the City's Bond Policy. All four the projects have applied for and received other soft loan commitments in addition to applying for the NOFA. The Sponsors also agreed that each of the developments will be leasehold developments where the fee interest is held by a public entity. *See Attachment A1-A5 – Site Map for location information and see Attachment B1-B4 – Construction Sources for a summary of the construction/permanent sources for the projects.*

Table 2- Project Funding/Unit

Project Name	City Loan Request	Total No. of Units	Per Unit Allocation	RRH	PBV	NOFA Scores	Total Dev Cost	Cost/Unit
Tamien Station	\$ 16,750,000	135	\$ 124,074	67	0	170	\$ 118,898,418	\$ 880,729
The Charles	\$ 9,675,885	99	\$ 97,736	49	44	155	\$ 84,921,550	\$ 857,793
1860 Alum Rock	\$ 7,500,000	60	\$ 125,000	30	26	155	\$ 48,399,504	\$ 806,658
777 West San Carlos	\$ 19,125,000	154	\$ 124,188	51	16	180	\$ 137,877,137	\$ 895,306
Total	\$ 53,050,885	448		197	86			
Average	\$ 13,262,721		\$ 117,750				\$ 97,524,152	\$ 860,122

The descriptions below highlight outside funding commitments for each project. Should the Sponsors receive a City loan commitment to move forward with the developments, the Sponsors plan to apply for tax credit funding in the August 2022 State Tax credit and the CDLAC joint

application funding round. If allocations are granted, the City plans to issue City of San José Tax-Exempt Multi-Family Housing Revenue Bonds (City Bonds) for each development.

Tamien Station (1197 Lick Avenue, UrbanCo-Tamien, LLC)

Project Description

Santa Clara Valley Transportation Authority (VTA) determined that the Tamien Station site is an appropriate location for development pursuant to its Joint Development Policy, and on September 27, 2016, it issued a request for proposal for the Tamien Station Transit-Oriented Development (TOD). VTA owns and controls approximately 12.56 acres in total real property at Tamien Station, of which 6.96 acres will be housing-related development; the remaining 5.6 acres presently serves as surface parking lots for the VTA and CalTrain. UrbanCo-Tamien LLC, a partnership between the Core Communities and Republic Urban, was selected through VTA's request for proposal to develop the site. The development will be a three-phase mix-used 569 multi-family rental apartments consisting of:

- *Phase 1:* 135 affordable housing apartments with 3000 square feet of commercial space to be leased to a childcare provider
- *Phase 2 and 3:* 434 market-rate apartments equally divided in two buildings.

The recommendation in this memorandum at (a)(1)(i) is to provide funding for Phase 1 - the affordable housing portion, the below market rate component, of the Tamien Station TOD. Prior to the first closing, the Tamien Station TOD site will be subdivided into three separate parcels for each of the affordable and market-rate housing phases and VTA will ground lease the separate parcels for each phase of development. The Phase 1 Tamien Station affordable development will meet the requirements of the Inclusionary Housing Ordinance for the entire Tamien Station TOD development. Housing Department staff is working with the Sponsor to complete an updated Inclusionary Housing Ordinance Compliance plan which must be approved by staff prior to the submission of the CDLAC funding application for the affordable housing portion of the Tamien Station development.

Phase 1 of the Tamien Station TOD will consist of a five-story building with 135 total residential apartments (134 below market rate, plus one manager's apartment) and a 3,000 square foot commercial space to be used as a childcare center. The Sponsor has partnered with the Low Income Investment Fund and Santa Clara County Office of Education to solicit proposals from Title 5 childcare providers to offer subsidized childcare services. Other site amenities will include outdoor courtyard space with a splash pad, a gym, community room, and business center plus access to two transit rail lines and an adjoining public park.

LifeSTEPS will assist in the coordination of an onsite grocery program for residents in need of food. LifeSTEPS currently provides food programs at eighteen affordable housing communities in Santa Clara County, partnering with agencies such as Loaves and Fishes, Health Trust, and Second Harvest Food Bank. Tamien Station resident needs will be identified through

LifeSTEPS' resident need assessments, resident self-referrals, and property management referrals.

VTA holds a lease option agreement, dated September 14, 2019, with UrbanCo-Tamien, LLC which establishes UrbanCo-Tamien, LLC's right to develop on the VTA-owned property. An amended Lease Option Agreement was executed on April 6, 2020 and UrbanCo-Tamien, LLC exercised its option to extend the agreement by another 12 months. This assignment commits VTA to entering into an 85-year ground lease for development of Phase 1 with an expected upfront discounted lump sum one-time lease payment of \$3 million by the Sponsor paid to VTA at closing. UrbanCo-Tamien, LLC will pay an annual non-discounted rent of \$118,500 for the market rate developments.

Affordability Unit Mix/Area Median Income Levels

Tamien Station Phase 1 aims to support families, as more the 50 percent of the development will consist of two- and three-bedroom apartments. The project includes 20 studios (15%), 44 one-bedroom units (33%), 36 two-bedroom units (27%), and 34 three-bedrooms units (25%), plus one manager's unit. Through a partnership with OSH, 67 units will be set aside for tenants in its Rapid Rehousing program, which prioritizes residents who are on the brink of homelessness. The Rapid Rehousing units will be restricted to individuals and households who earn up to 30% AMI while the remaining units are projected to serve individuals and households who earn up to 60% AMI.

UNIT SIZE	UP TO 30% AMI			UP TO 60% AMI			Manager's Unit	TOTAL
	Units	Max Income **	Rent Limits	Units	Max Income **	Rent Limits		
Studio	10	\$34,800	\$794	10	\$69,600	\$1,588		20
1-BD	22	\$39,800	\$850	22	\$79,560	\$1,701		44
2-BD	18	\$44,750	\$1,021	18	\$89,520	\$2,043		36
3-BD	17	\$49,700	\$1,180	17	\$99,420	\$2,360		34
Manager's Unit	N/A	N/A	N/A	N/A	N/A	N/A	1	1 *
Total	67			67			1	135

* Unrestricted manager's unit

**Maximum rent limits are based upon TCAC occupancy guidelines of 1.5 persons per bedroom. The illustration of maximum income assumes an actual family size equal to 1.5 persons per bedroom.

Financing

Current soft debt financing commitments include \$25 million from the County's Measure A funds and a recently awarded Affordable Housing and Sustainable Communities program loan in the amount of \$16,000,000. The Sponsor plans to leverage these two funding sources to submit an August 2022 CDLAC application in addition to applying to the City for the remaining gap financing of up to \$16,750,000. The Sponsor is in the process of securing a senior construction and permanent loan before the August CDLAC round. A deferred developer fee of \$2,300,000 is included in the sources.

The Charles (551 Keyes Street, Charities Housing)

Project Description

Charities Housing is proposing to develop, own, and manage a new 99-unit 100% affordable housing development located at 551 Keyes Street. Though the property consists of 0.9-acres, only .065-acres of that land is buildable; the remainder will serve as a public right-of-way for the City. The development will be new construction and is anticipated to be an all-concrete, seven stories structure, including a below-ground garage level. The proposed development includes 99 multifamily apartments above the ground podium level, including two unrestricted units for on-site management staff.

The amenities for the project area will include a large community room with an attached kitchen and pantry for staff and resident use, office space for property management and an onsite resident services provider, space for front desk staff, laundry facilities, ample locked bicycle storage, an outdoor landscaped open space at the ground level for walking/recreational use, and connection to walking and bicycle trail to the rear of the property. There will be a total of 50 residential parking spaces.

The Sponsor indicated that it plans to engage with The Health Trust and/or Second Harvest Food Bank to partner and provide food access for residents.

Affordability Unit Mix/Area Median Income Levels

The project aims to support large families and includes 49 apartments that will be reserved by the Sponsor for Rapid Rehousing households. The project includes 30 studios (30%), 18 one-bedroom units (18%), 23 two-bedroom units, (24%) and 26 three-bedroom units (27%) units along with two units for management staff. Forty-nine units will serve extremely low-income households earning up to 30% AMI and 48 units will serve very low-income households earning up to 50% AMI.

UNIT SIZE	UP TO 30% AMI			UP TO 50% AMI			Manager's Unit	TOTAL
	Units	Max Income**	Rent Limits **	Units	Max Income	Rent Limits **		
Studio	28	\$34,800	\$794	2	\$58,000	\$1,323		30
1 bedroom	16	\$39,800	\$850	2	\$66,300	\$1,418		18
2 bedroom	1	\$44,750	\$1,021	22	\$74,600	\$1,702		23
3 bedroom	4	\$49,700	\$1,180	22	\$82,850	\$1,966		26
Manager's Units	N/A	N/A	N/A	N/A	N/A	N/A	2	2 *
Total	49			48			2	99

* Unrestricted managers' units

**Maximum rent limits shown here are based upon TCAC occupancy guidelines of 1.5 persons per bedroom. The illustration of maximum income assumes an actual family size equal to 1.5 persons per bedroom.

Voucher Mix

Santa Clara County Housing Authority has committed a conditional award of 44 Project Based Vouchers for the development. The initial Housing Assistance Payments contract term for the Project Based Vouchers is up to 20 years. Within two years of the conclusion of the initial Housing Assistance Payments contract term, Santa Clara County Housing Authority will analyze the project to determine whether it is eligible for an extension term of up to 20 years.

Unit size and Affordability	Project Based Voucher	Total
	50% AMI	
Studios	N/A	0
1-BD	N/A	0
2-BD	22	22
3-BD	22	22
Total	44	44

Financing

The project has a commitment from the County for Measure A funding in the amount of \$12,400,000. The Sponsor also identified several potential funding sources in addition to the City's NOFA, is engaging with the Housing Trust for a soft loan commitment of \$4,500,000, and will apply for 4% tax credits in August 2022. A tax-exempt construction loan of \$43,828,444 is anticipated and Charities Housing is currently discussing terms with prospective lenders. The development anticipates \$8,933,456 in tax credit equity to be available during the construction period and a deferred developer fee of \$1,690,868 is identified in the sources.

1860 Alum Rock (1860 Alum Rock Avenue, Charities Housing)

Project Description

Charities Housing is proposing to develop, own, and manage a new mixed-use 60-unit 100% affordable housing development located on an 0.66-acre site. The development will consist of one five-story building with four-stories of wood-framed residential apartments above a ground floor concrete podium. The ground floor will contain approximately 3,100 square feet of commercial space, residential common area, utility spaces, bicycle storage, and enclosed parking. The upper floors will include 59 affordable units and one unrestricted manager's unit.

Amenities for the site include, but are not limited to, secured bicycle storage, offices for property management and service providers, laundry facilities, a large community room with an attached kitchen for staff and resident use, a food pantry, a fifth-floor outdoor terrace, and a large second-floor outdoor landscaped courtyard. There will be a total of 42 parking spaces: seven commercial and 35 residential.

Charities Housing has partnered with Amigos de Guadalupe to develop a new Amigos de Guadalupe: Center for Justice and Empowerment in the commercial portion of the development. Amigos de Guadalupe grew out of Our Lady of Guadalupe Parish in the Mayfair community. From its current location across the street from the proposed 1860 Alum Rock development, Amigos de Guadalupe provides East San José with services ranging from education, housing, immigration, and advocacy. Amigos de Guadalupe and Charities Housing entered a memorandum of understanding in January of 2021 for Charities Housing to provide support in the entitlement, design, and financing of the development and for Amigos de Guadalupe to provide advocacy, support, and fundraising for the development of the commercial portion, as needed. Charities Housing intends to lease the commercial space to Amigos de Guadalupe for \$1 per month for a minimum of 10 years with a five-year option to renew. Amigos De Guadalupe will also contribute \$250,000 as a source of construction-to-perm capital contribution.

Affordability Unit Mix/Area Median Income Levels

The project aims to support large families, as half of the units will be two- and three- bedroom apartments. The 60-unit project includes 10 studios (17%), 19 one-bedroom units (32%), 16 two-

bedroom units, including one manager's unit (26%), and 15 three-bedroom units (25%). Thirty units (51%) will serve extremely low-income households earning 30% AMI and 29 units (49%) will serve very low-income households earning 50% AMI. Through a partnership with OSH, 30 units will be set aside by the Sponsor for tenants in its Rapid Rehousing program, which prioritizes residents who are experiencing homelessness; these units will be restricted to 30% AMI levels.

UNIT SIZE	UP TO 30% AMI			UP TO 50% AMI			Manager's Unit	TOTAL
	Units	Max Income **	Rent Limits	Units	Max Income **	Rent Limits		
Studio	9	\$34,800	\$794	1	\$58,000	\$1,323		10
1-BD	17	\$39,800	\$850	2	\$66,300	\$1,418		19
2-BD	2	\$44,750	\$1,021	13	\$74,600	\$1,702		15
3-BD	2	\$49,700	\$1,180	13	\$82,850	\$1,966		15
Manager's Units	N/A	N/A	N/A	N/A	N/A	N/A	1	1 *
Total	30			29			1	60

* Unrestricted manager's unit

**Maximum rent limits are based upon TCAC occupancy guidelines of 1.5 persons per bedroom. The illustration of maximum income assumes an actual family size equal to 1.5 persons per bedroom.

Voucher Mix

Charities Housing applied to the Santa Clara County Housing Authority for 26 Section 8 project-based vouchers and it expects to receive an award for these vouchers prior to the CDLAC application deadline in August.

Unit size and Affordability	Project Based Voucher	Total
	50% AMI	
Studios	N/A	0
1-BD	N/A	0
2-BD	13	13
3-BD	13	13
Total	26	26

Financing

The project has a commitment from the County for Measure A funding of \$8.6 million. The Sponsor also anticipates receipt of Housing and Urban Development Authority to Use Grant Funds by summer 2022 and will apply for 9% tax credits. A tax-exempt construction loan of \$27,397,960 is anticipated, but a lender is not yet identified. \$3,524,648 in tax credit equity during the construction period will be available.

777 West Carlos (777 W. San Carlos Street, Danco Communities)

Project Description

Danco Communities proposes to design, develop, construct, and manage a new construction affordable family housing project. This project will be a 154-unit family affordable housing on 1.22 acres consisting of 153 units and one three-bedroom unit for an onsite manager. The six-story building will consist of five floors over a podium-style structure. The building will be served by two elevators and be fully accessible per California accessibility standards.

Community amenities will include a multi-purpose room, community room with full kitchen, manager's office, and therapy rooms/small offices for individual sessions. There will also be second office, fitness room, yoga room, bike parking, bike repair area, package storage area, pet grooming room, and trash/recycle room. Laundry rooms will be provided on each residential floor and will contain efficient commercial grade washers and dryers with fully accessible controls and maneuvering clearances. The Sponsor proposed a 3,000 square foot childcare center onsite that would be able to support 50 children. The childcare center will feature offices for childcare staff, two 888 square foot classrooms, an 1,875 square foot outdoor play area. In terms of food access, LifeSTEPS will assist in the coordination of an onsite grocery program for residents. There will be 74 parking spaces on the ground floor in addition to bicycle and motorcycle parking and dedicated parking for childcare center staff.

Affordability Unit Mix/Area Median Income Levels

The development will be 154 units consisting of 50 studios units (33%), 25 one-bedroom units (16%), 39 two-bedroom units (25%), and 40 three-bedroom units (26%), one of which will be reserved for an onsite manager. Twenty percent of the units are listed as Americans with Disabilities Act mobility units.

UNIT SIZE	UP TO 30% AMI			UP TO 60% AMI			Manager's Unit	TOTAL
	Units	Max Income **	Rent Limits	Units	Max Income **	Rent Limits		
Studio	34	\$34,800	\$794	16	\$69,600	\$1,588		50
1-BD	17	\$39,800	\$850	8	\$79,560	\$1,701		25
2-BD	27	\$44,750	\$1,021	12	\$89,520	\$2,043		39
3-BD	24	\$49,700	\$1,180	15	\$99,420	\$2,360		39
Manager's Unit	N/A	N/A	N/A	N/A	N/A	N/A	1	1 *
Total	102			51			1	154

* Unrestricted manager's unit

**Maximum rent limits are based upon TCAC occupancy guidelines of 1.5 persons per bedroom. The illustration of maximum income assumes an actual family size equal to 1.5 persons per bedroom.

Voucher Mix

Santa Clara County Housing Authority has committed a conditional award of 16 Project Based Vouchers. The initial housing assistance payments contract term for Project Based Vouchers is up to 20 years.

The development will also include 51 Rapid Rehousing units and the County will be responsible for coordinating supportive services for these residents. While OSH is still developing the services model for newly constructed Rapid Rehousing units, it estimates that the supportive services costs for the Rapid Rehousing units will be approximately \$382,500 per year for the first two years of operation. Supportive services costs for the Rapid Rehousing units would decrease significantly in the third year, unless there was significant turnover in the Rapid Rehousing units. At that point, OSH would assess the funding needed for the supportive services and recommend appropriations for the County's Board of Supervisors' consideration as part of its Fiscal Year 2023-24 budget process.

Unit size and Affordability	Project Based Vouchers	Total
	30% AMI	
Studios	0	0
1-BD	0	0
2-BD	8	8
3-BD	8	8
Total	16	16

Financing

The project has a commitment for County Measure A funds in the amount of \$29,720,215. The Sponsor is seeking tax credit equity in the amount of \$53,259,824 and state tax credits of \$22,440,009. Pacific Western Bank provided an initial commitment for the construction loan amount of \$73,736,367 and permanent first mortgage in the amount of \$15,287,629, conditional on the issuance of tax-exempt bonds by the City.

Affordable Housing Childcare Tenant Improvement Fund

The City of San José established the Affordable Housing Childcare Tenant Improvement Fund within the American Rescue Plan fund to offset a portion of the costs related to the building requirements associated with constructing a licensed high-quality childcare space. The purpose of the fund is to incentivize new childcare spaces within new affordable housing developments. Library Department staff developed criteria for making these awards based on zip codes that have been identified as high-priority for childcare. Proposed affordable housing developments with childcare space included were considered for the award of these grant funds.

The 777 West San Carlos affordable housing development was selected for this grant due to its location in a high-priority for childcare zip code. The development will include an onsite 3,000 square foot childcare center that will provide care for 50 children. Based on estimated costs to build on a per square foot basis (\$550/square foot), staff recommends providing a grant for 15% of the development cost. This results in a \$247,500 grant for construction costs related to the childcare center. These funds would be committed as a part of the recommended action for this memorandum.

The Affordable Housing Childcare Tenant Improvement Fund will be established with City Council's approval of the 2022-2023 Adopted Operating Budget scheduled on June 21, 2022.

Loan to Value Ratio

The City's Loan to Value (LTV) policy requires that the combined LTV ratio (all the loans divided by the appraised value of the property) not exceed 100%. While the appraised value of the property is not known at this time, the appraisal that will be prepared for the senior lender before construction closing is expected to result in a combined LTV that significantly exceeds 100% and therefore would exceed the City's Delegation of Authority LTV policy threshold.

The LTV policy was initially intended to reduce the City's risk of loss associated with its loans; however, the City now builds more deeply affordable projects than it did in the 1990's and early 2000's. The deeper affordability of a project increases the need for public subsidies, while decreasing the project's market value, leading to an increased LTV. An elevated LTV above 100% is not uncommon for public lenders in the affordable housing industry. Projects 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 required permanent mortgage payment. This is a

common standard for assessing the financial feasibility of affordable housing developments. At least three of the four projects identified in this memorandum have 20-year cash flow projections resulting in Debt Service Coverage Ratio (DSCR) of 1.15 and over by year two onwards.

- Tamien Station – Year 2 DSCR of 1.19
- The Charles – Year 2 DSCR of 1.15
- 1860 Alum Rock – Year 2 DSCR of 1.15
- 777 West Carlos – Year 2 DSCR of 1.17

Next Steps

If Sponsors are able to obtain all necessary funding commitments for their projects, the City will facilitate the Sponsors' applications for a CDLAC Low-Income Housing Tax-Exempt Bond Allocation in August of 2022. If Sponsors are unable to obtain funding commitments to close all funding gaps, the City will not move forward with the CDLAC process. If the projects are successful, CDLAC allocations are anticipated in November 2022. For those projects, construction is estimated to initiate by the first quarter of 2022 and conclude between years 2023 and 2025. *See Attachment C1-C4 - Anticipated Development Timelines.*

By the authority delegated under section 5.06.335 of the San José Municipal Code (Authority to negotiate and execute council-approved loans, grants and programs), 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 the four developments.

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 San José Municipal Code; therefore, final loan business terms would be summarized in those memoranda. 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 the four developments successfully close construction financing, that information would be included in these quarterly production reports. Once the County finalizes its security and safety minimum standards, the standards will be provided to the Sponsors so they can be incorporated the projects.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum aligns with one or more of Climate Smart San José energy, water, or mobility goals. All of the developments will be within a half-mile proximity of transit and are infill developments in walkable areas of the city. The Tamien Station is leveraging a partnership with VTA to provide a high-density, mixed-use transit-oriented development along

a critical transit corridor. The Charles utilizes a community open space that connects to a bicycle and walking trail at the rear of the development. The Charles, 1860 Alum Rock, and 777 West San Carlos include bicycle parking spaces, with the 777 West San Carlos development also integrating high efficiency, sustainable washers and dryers into the units.

POLICY ALTERNATIVES

Alternative #1: *The City Council could deny the requested funding commitment.*

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

Cons: The City is facing a tremendous need for affordable housing. Locating suitable sites near transit and services at a reasonable price is difficult, making it more challenging for the City to help create housing options for very low- and low-income individuals.

Reason for not recommending: These housing developments are a viable opportunity to serve residents from a wide range of income levels, of whom may potentially include downtown workers.

PUBLIC OUTREACH

Tamien Station

UrbanCo-Tamien, LLC has been engaging a key stakeholder, SV@Home, in the community surrounding the Tamien Station project since May of 2018. Since the initial meeting, the development team met with SV@Home three additional times to discuss the project design, timelines, financing, and any other questions or concerns the organization raised.

The Sponsor also held several community meetings to solicit input on the development. The following are a few of the proposed affordable housing and sustainable transit infrastructure project features that are a result of community feedback: increase the total number of affordable units and type of affordable units to meet the community's needs; install new sidewalks along the property's frontage and provide a well-lit pedestrian path from the public walkway to the adjacent transit station; provide enhanced bicycle infrastructure, including bike parking, lockers, and share facilities; and provide a new light rail wind shelter and benches.

The Charles

Though the project has already been approved for a Senate Bill 35 Ministerial Permit, which does not require community outreach or meetings, Charities Housing has reached out to key stakeholders in the community. Early meetings were held with City officials to discuss the initial development concept and to seek input. Structured community meetings with neighborhood associations were conducted to disseminate information and gather feedback. Charities Housing

also held regular virtual update meetings to solicit input from the surrounding community. A series of community meetings with neighbors and businesses within 1,000 feet of the development were held and covered topics such as improved pedestrian access, parking and traffic improvements, and programming for children, families and seniors. Community groups and non-profits that serve the needs and interests of seniors, low-income families, and other vulnerable populations have been and will continue to be contracted to assist with possibly providing services to residents, such as organizations that provide healthy food resources and/or affordable transportation.

1860 Alum Rock

Though the project has already been approved for a Senate Bill 35 Ministerial Permit, which does not require community outreach or meetings, Charities Housing has reached out to key stakeholders in the community. To date, Charities Housing has met with Councilmember Magdalena Carrasco who generally supports the project and encouraged the Sponsor to meet with other neighborhood and community groups and leaders. Following that meeting, Charities Housing met with leaders of the Alum Rock Santa Clara Street Business Association, SOMOS Mayfair, and Amigos De Guadalupe. The Sponsor also met with Alum Rock Urban Village Advocates who formally supported the project through its project scoring process. Further, Charities Housing met with the School of Arts and Culture and Alum Rock Urban Village Advocates to discuss ways in which the proposed development could be incorporated into an overarching cultural district the community is planning to establish.

Structured community meetings with neighborhood associations were conducted to disseminate information and gather feedback. Charities Housing held virtual update meetings to solicit input from the surrounding community. A series of community meetings with neighbors and businesses within 1,000 feet of the development covered topics such as improved pedestrian access, parking and traffic improvements and programming for children, families and seniors. Community groups and non-profits that serve the needs and interests of seniors, low-income families and other vulnerable populations have been and will continue to be contracted to assist with possibly providing services to the residents, such as organizations that provide healthy food resources and or affordable transportation.

777 West San Carlos

Danco Communities completed the required community outreach with the community via a public meeting. The meeting was planned with the support and guidance of County Supervisor Ellenberg's office as well as Councilperson Davis's office. The virtual community meeting was held on February 15, 2021. Danco Communities facilitated the meeting and presented on the design and goals of the project, including childcare and other site and service amenities. Danco Communities contacted property owners within 150 feet of the planned development, local business and various neighborhood associations including, but not limited to, the Buena Vista Neighborhood Association, Canoas Garden Neighborhood Association, College Park Neighborhood Association, Cory Neighborhood Association, Newhall Neighborhood

Association, and District 6 Neighborhood Leadership Group. Danco Communities plans to use its Community Engagement Tracker tool and record all correspondence and feedback received from local stakeholders.

This memorandum will be posted on the City Council Agenda website for the June 21, 2022 City Council meeting.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the Library Department.

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 action is consistent with the City's *Consolidated Plan 2020-2025*, adopted by City Council on August 11, 2020, to provide homes for very low- and extremely low-income households; and with Goal H-2 of the City's *Housing Element 2014-2023*, adopted by City Council on January 27, 2015, to "increase, preserve, and improve San José's affordable housing stock" and the *Community Plan to End Homelessness 2020-2025*, endorsed by the City Council on August 25, 2020, in that it recommends expanding supportive housing for formerly homeless residents.

COST SUMMARY/IMPLICATIONS

1. ESTIMATED COSTS:

USES	AMOUNT
Construction Loan	\$53,050,885
Childcare Center Grant	\$ 247,500
TOTAL "UP TO" PERMANENT LOAN AMOUNT	\$53,298,385

2. **SOURCE OF FUNDING:** General Fund – Measure E – 40% Extremely Low Income Reserve and 30% Low Income Households Reserve; Low and Moderate Income Housing Asset Fund ; American Rescue Plan Fund (Affordable Housing Childcare Tenant Improvement).
3. **FISCAL IMPACT:** Funding in the amount of \$53,298,385 has been reserved in the General Fund (Measure E), Low and Moderate-Income Housing Asset, and American Rescue Plan Fund to encumber and draw upon when construction is initiated. The recommended actions appropriate \$8,701,377 from the Measure E – 40% Extremely Low-Income Households Reserve to a new Measure E – 40% Low-Income Households Reserve appropriation, appropriate \$8,474,508 from the Measure E – 30% Low-Income Households Reserve to a new Measure E – 30% Low-Income Households appropriation, and appropriate \$35,875,000 from the Housing Project Reserve to the Housing Loans and Grants appropriation. There is no ongoing fiscal impact to the General Fund as a result of this action.

BUDGET REFERENCE

The table below identifies the funds and appropriations to fund the recommended loan commitments.

Fund #	Appn #	Appn. Name	Proposed 2022-2023 Total Appn*	Recom. Budget Adjustment	Amount For Commitment	2022-2023 Proposed Operating Budget Page**	Last Budget Action (Date, Ord. No.)
001	8597	Measure E – 40% Extremely Low Income Households Reserve	\$76,230,559	(\$8,701,377)	N/A	829	N/A
001	New	Measure E – 30% Low-Income Households Reserve	\$57,172,919	(\$8,474,508)	N/A	829	N/A
001	New	Measure E – 40% Extremely Low Households Income	\$0	\$8,701,377	\$8,701,377	N/A	N/A
001	New	Measure E – 30% Low-Income Households	\$0	\$8,474,508	\$8,474,508	N/A	N/A
346	8437	Housing Project Reserve	\$55,000,000	(\$35,875,000)	N/A	897	N/A
346	0070	Housing Loans and Grants	\$ 20,688,057	\$35,875,000	\$35,875,000	896	N/A

HONORABLE MAYOR AND CITY COUNCIL

June 9, 2022

Subject: Actions Related to the Loan Commitments for Four New Affordable Housing Developments

Page 20

402	New	Child and Youth Services – Childcare Tenant Improvement	\$900,000	N/A	\$247,500	839	N/A
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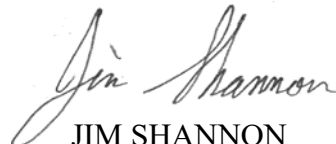
*These amounts assume City Council approval of adjustments included in Manager's Budget Addendum #42, *Recommended Amendments to the 2022-2023 Proposed Capital and Operating Budgets*.

**The 2022-2023 Proposed Operating Budget is scheduled for approval on June 14, 2022 and for adoption on June 21, 2022 by the City Council.

CEQA

The Charles, Alum Rock, and West San Carlos projects are Exempt from CEQA per Public Resources Code Section 21080(b)(1) and CEQA Guidelines Section 15369, Ministerial Project pursuant to Government Code Section 65913.4, File No. ER20-109. Tamien Station (PD20-003): Determination of Consistency with the Mitigated Negative Declaration for Tamien Station Transit Oriented Development Project (Resolution No. 79567), File No. PDC18-025.

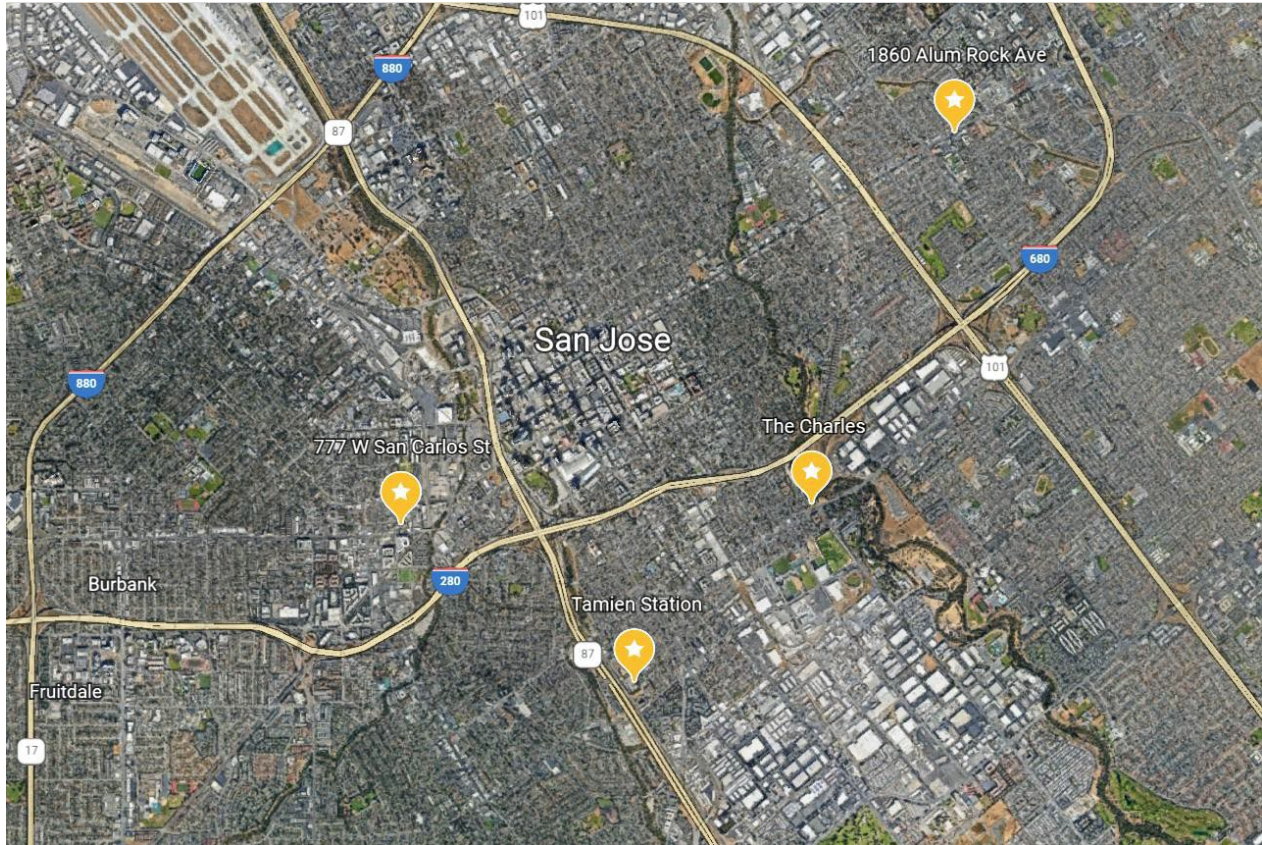
/s/
JACKY MORALES-FERRAND
Director, Housing Department


JIM SHANNON
Budget Director

For questions, please contact Rachel VanderVeen, Deputy Director, at (408) 535-8231.

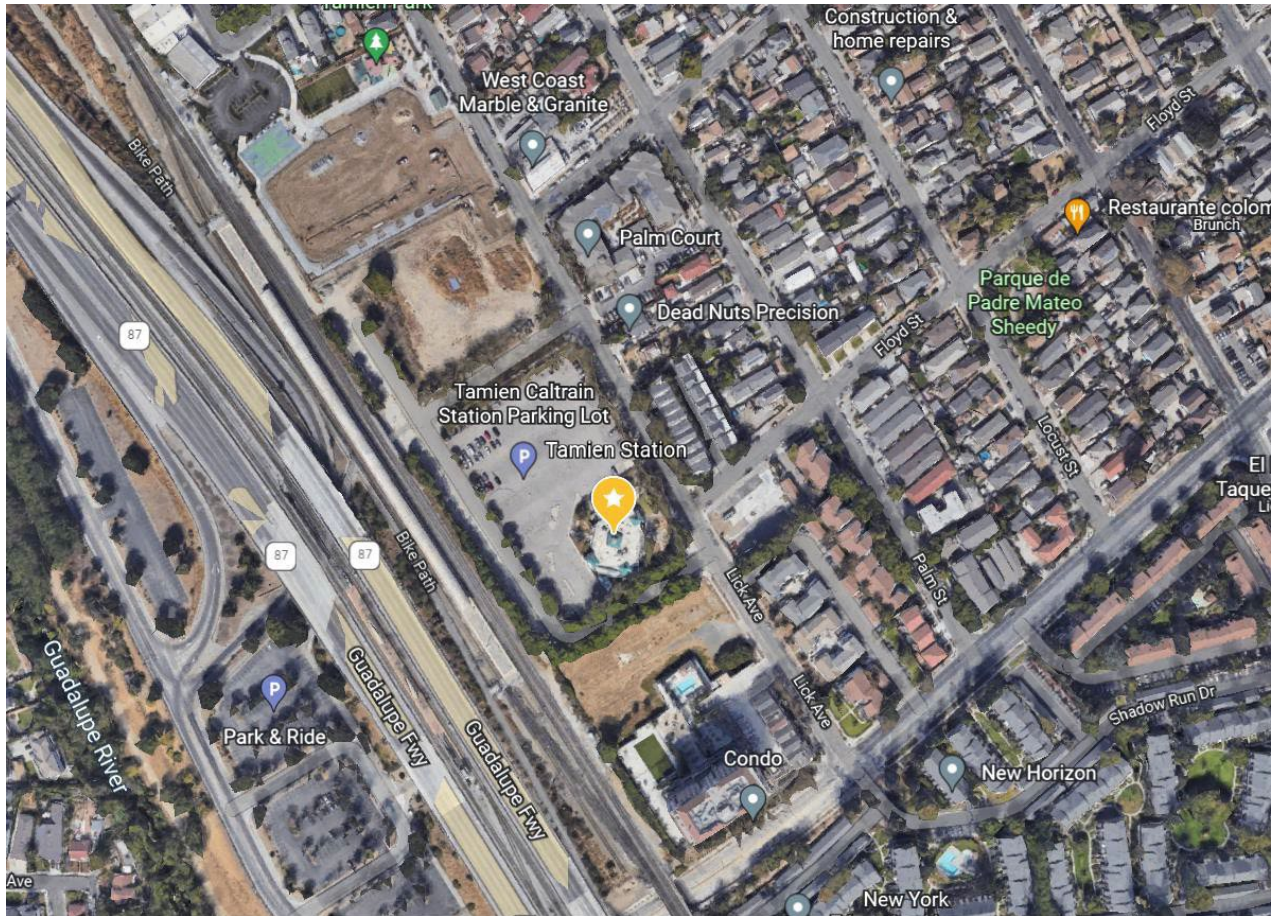
Attachments A1-A5: Site Map
Attachments B1-B4: Construction Sources
Attachments C1-C4: Anticipated Development Timeline

ATTACHMENT A-1
SITE MAP OF THE FOUR NOFA APPLICATION DEVELOPMENTS



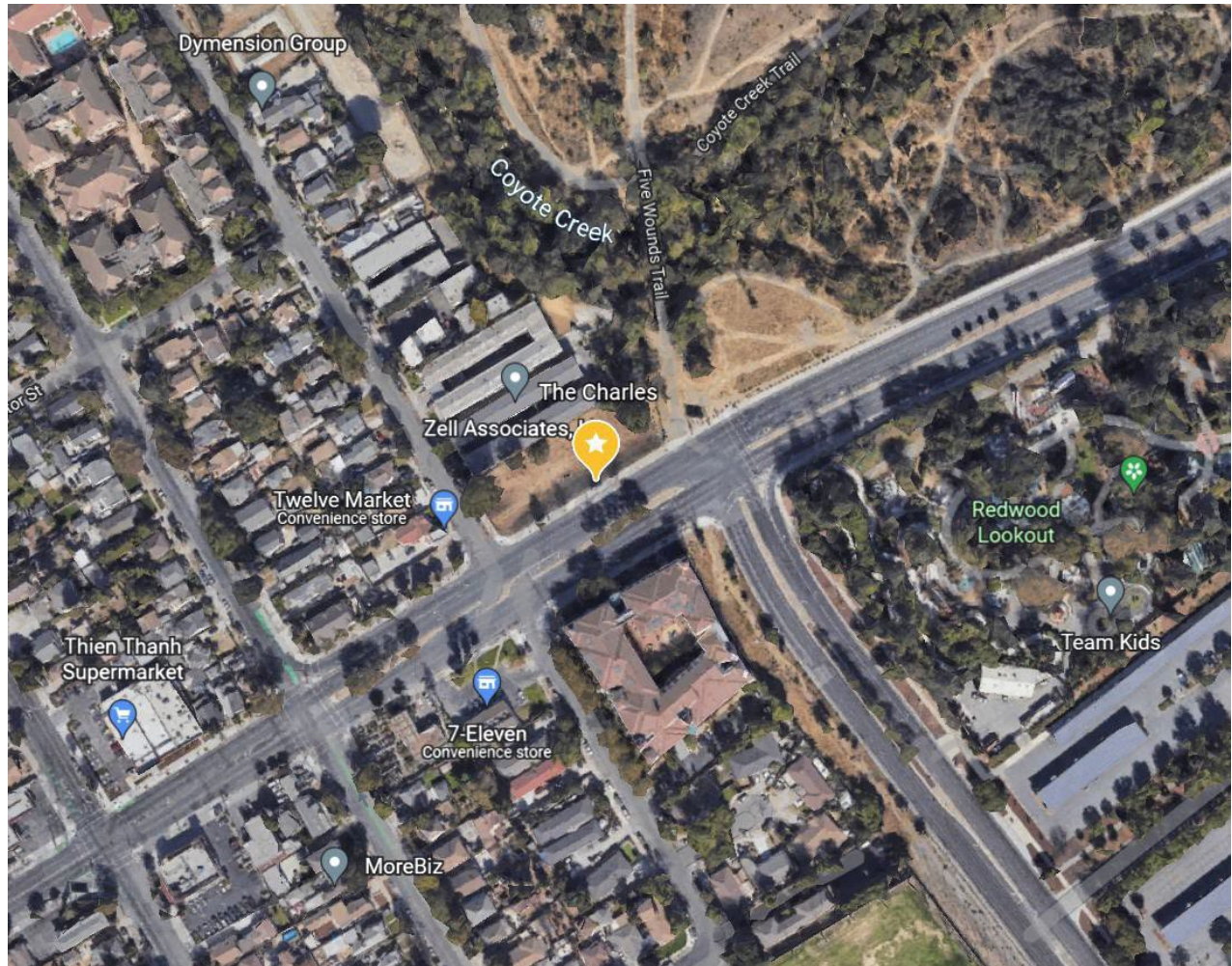
ATTACHMENT A-2 TAMIEN STATION

SITE MAP



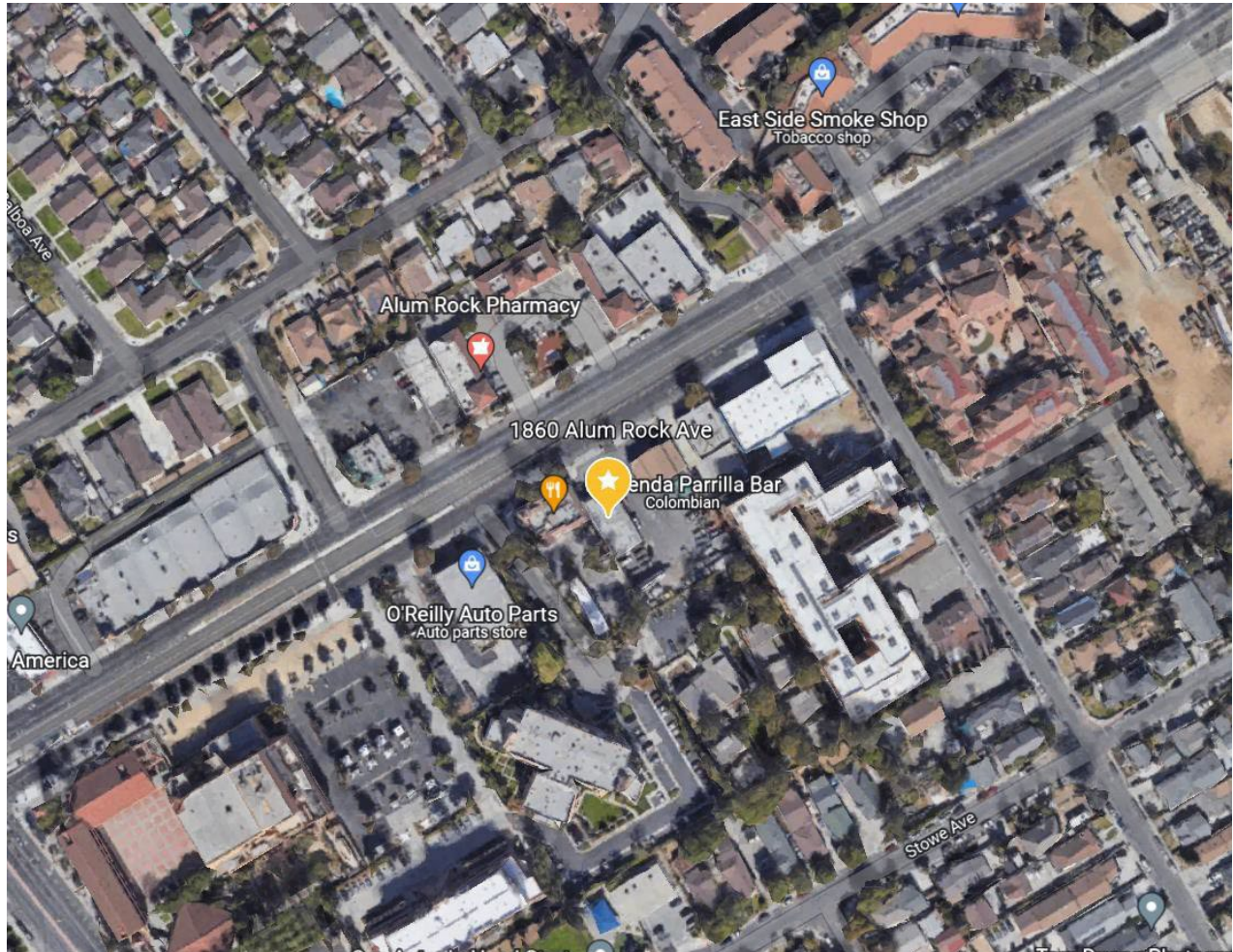
ATTACHMENT A-3
THE CHARLES

SITE MAP



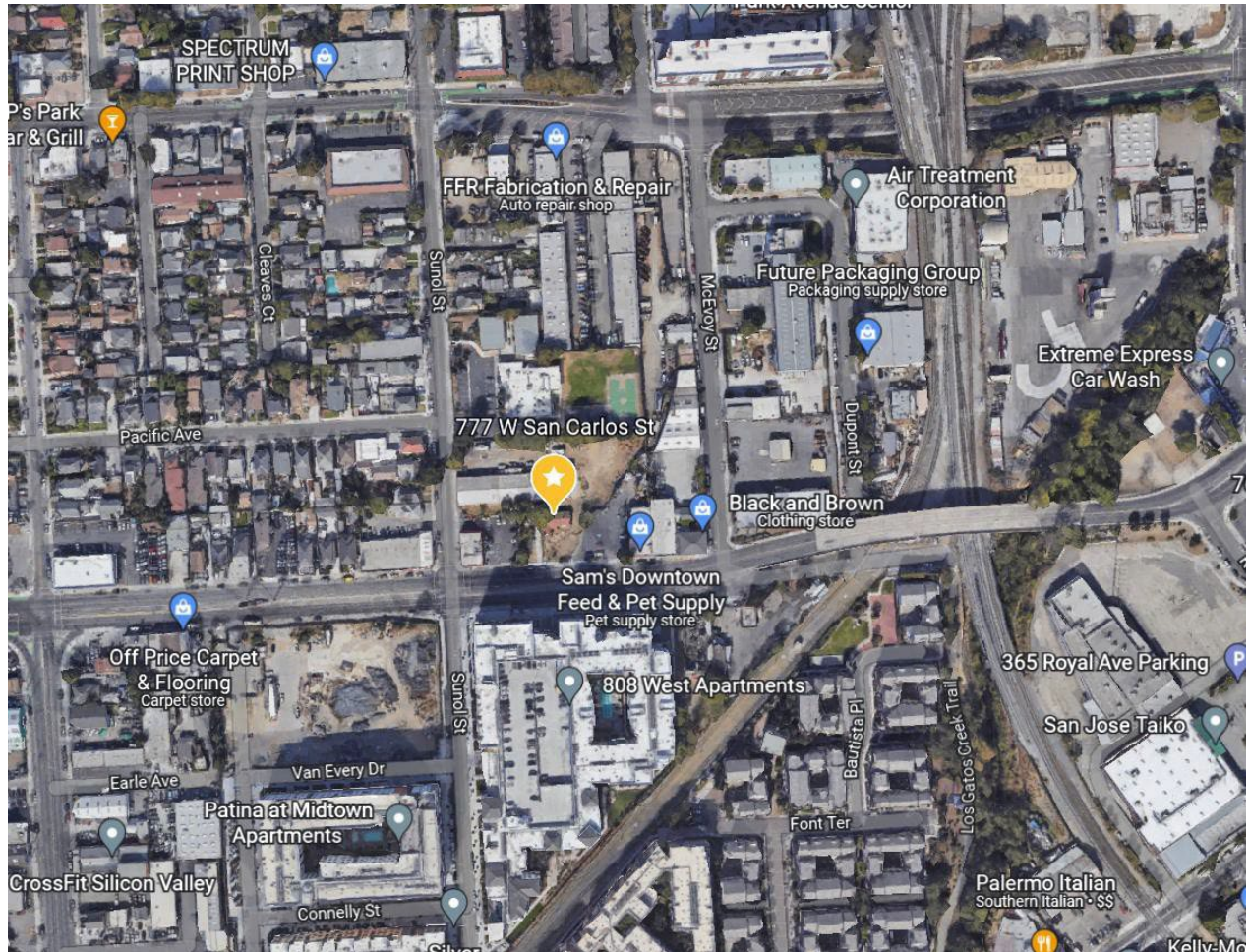
ATTACHMENT A-4
1860 ALUM ROCK

SITE MAP



ATTACHMENT A-5
777 WEST SAN CARLOS

SITE MAP



**ATTACHMENT B-1
TAMIEN STATION**

CONSTRUCTION SOURCES

SOURCE	AMOUNT
Tax-Exempt Construction Loan	\$61,000,000
Taxable Construction Loan	\$5,000,000
County of Santa Clara	\$25,000,000
City of San José	\$16,750,000
GP Equity	\$100
Tax Credit Equity	\$10,114,838
Deferred Developer Fee	\$2,300,000
Total Sources	\$120,164,938

PERMANENT SOURCES

SOURCE	AMOUNT
Tranche A/B Tax-Exempt	\$7,675,000
County of Santa Clara	\$25,000,000
HCD – AHSC	\$16,000,000
City of San José	\$16,750,000
Deferred Developer Fee	\$2,300,000
Soft Loans – Accrued Interest	\$1,200,000
GP Equity	\$100
Tax Credit Equity	\$51,239,838
Total Sources	\$120,164,938

**ATTACHMENT B-2
THE CHARLES**

CONSTRUCTION SOURCES

SOURCE	AMOUNT
Bank Construction Loan	\$43,828,444
Taxable Construction Loan	\$3,112,501
City of San José	\$9,675,885
County of Santa Clara	\$9,280,000
HSTV Apple iLoan	\$4,500,000
Deferred Costs	\$3,073,879
Deferred Developer Fee	\$1,690,868
GP Contributions	\$559,232
Tax Credit Equity	\$8,933,456
Accrued Interest	\$267,285
Total Sources	\$84,921,550

PERMANENT SOURCES

SOURCE	AMOUNT
Tranche A Tax-Exempt	\$4,609,000
Tranche B Tax-Exempt	\$9,672,000
City of San José	\$9,675,885
County of Santa Clara	\$9,280,000
HSTV Apple iLoan	\$4,500,000
Deferred Developer Fee	\$1,690,868
GP Equity	\$559,232
Tax Credit Equity	\$44,667,279
Accrued Interest	\$267,285
Total Sources	\$84,921,549

**ATTACHMENT B-3
1860 ALUM ROCK**

CONSTRUCTION SOURCES

SOURCE	AMOUNT
Tax-Exempt Construction Loan	\$27,397,960
County of Santa Clara	\$8,600,000
Accrued Interest – County of Santa Clara	\$287,210
City of San José	\$7,500,000
Deferred Costs	\$2,213,042
GP Contributions	\$250,000
Tax Credit Equity	\$3,524,648
Total Sources	\$49,772,860

PERMANENT SOURCES

SOURCE	AMOUNT
Tranche A – Conventional Perm Loan	\$3,040,000
Tranche B – Conventional Perm Loan	\$6,598,000
County of Santa Clara	\$8,600,000
Accrued Interest – County of Santa Clara	\$287,210
City of San José	\$7,500,000
GP Equity	\$250,000
Tax Credit Equity	\$23,497,650
Total Sources	\$49,772,860

**ATTACHMENT B-4
777 WEST SAN CARLOS**

CONSTRUCTION SOURCES

SOURCE	AMOUNT
Tax-Exempt Construction Loan	\$71,100,000
Taxable Construction Loan	\$16,500,000
Measure A Funds	\$29,720,215
Tax Credit Equity	\$10,706,414
Deferred Developer Fee, Reserves & Costs	\$9,850,508
Total Sources	\$137,877,137

PERMANENT SOURCES

SOURCE	AMOUNT
Pacific Western Bank Perm Loan	\$12,125,000
City of San José	\$19,125,000
State Tax Credit	\$22,440,009
Measure A Funds	\$29,720,215
Deferred Developer Note	\$820,000
Tax Credit Equity	\$53,532,069
Deferred Cost	\$114,844
Total Sources	\$137,877,137

**Anticipated Development
Timelines**

**ATTACHMENT C-1
TAMIEN STATION**

Apply for CDLAC/TCAC
Bond Allocation Award
Close Financing
Start Construction
Complete Construction (24 mo.)

August 2022
October 2022
April 2023
January 2023
January 2025

**ATTACHMENT C-2
THE CHARLES**

Apply for CDLAC/TCACBond
Allocation Award
Close Financing
Start Construction
Complete Construction (21 mo.)

August 2022
November 2022
April 2023
April 2023
January 2025

**ATTACHMENT C-3
1860 ALUM ROCK**

Apply for CDLAC/TCACBond
Allocation Award
Close Financing
Start Construction
Complete Construction (14 mo.)

August 2022
November 2022
April 2023
March 2023
November 2023

**ATTACHMENT C-4
777 WEST CARLOS**

Apply for CDLAC/TCACBond
Allocation Award
Close Financing
Start Construction
Complete Construction (24 mo.)

August 2022
October 2022
April 2023
May 2023
April 2025