

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN JOSE AMENDING THE UNDERWRITING GUIDELINES DEVELOPED BY THE HOUSING DEPARTMENT FOR USE IN UNDERWRITING AND STRUCTURING AFFORDABLE HOUSING TRANSACTIONS ADOPTED BY RESOLUTION NO. 78761, AND AMENDED BY RESOLUTION NO. 79784 TO UPDATE THE PER UNIT CONSTRUCTION AND PERMANENT FUNDING AMOUNT FROM \$125,000 TO \$325,000

WHEREAS, in June 2018, the City of San José (“City”) Council approved the Affordable Housing Investment Plan, which included a cap on the per unit funding amount for affordable housing at \$125,000 per unit; and

WHEREAS, this limit was established to clearly define the City’s contribution to affordable housing developers and to spread funding across a larger number of affordable units; and

WHEREAS, in August 2018, City Council adopted the Underwriting Guidelines (Resolution No. 78761) (“Guidelines”) setting standards for funding affordable housing developments, which included a construction and permanent per unit funding amount of \$125,000; and

WHEREAS, for over four years, the Housing Department has used this Guidelines per unit amount to determine the amount of construction and permanent funding invested in affordable housing developments; and

WHEREAS, on November 1, 2022, staff presented to Council a study conducted by Century | Urban which highlighted the recent impact of market condition on the cost and feasibility of constructing affordable housing, which report emphasized several factors that have had a significant effect on affordable housing development costs as well as

funding needs, as set forth in the Memorandum from Housing, Office of Economic Development, and Planning, Building and Code Enforcement Departments, dated as October 24, 2022:

- i. Total development costs increased by approximately 6% year-over-year in 2020 and also in 2021.
- ii. San José development costs are approximately 17% higher than those in other cities and developments with a higher percentage of extremely low-income homes have a higher development cost.
- iii. Financing costs increased by approximately 7% in 2020 and 2021 for San José developments and developments in this area averaged approximately six funding sources per project and therefore added costs due to extended financing timelines.

WHEREAS, development costs continued to increase further in 2022 which has had material consequences for the supply of new affordable housing as increased public subsidies are needed to fund higher developments costs, and in June 2022, staff obtained City Council approval for four development subsidy awards totaling \$53,050,885 in City funding commitments; and

WHEREAS, in early 2023, staff anticipates recommending three more developments for finding commitments to the City Council, which developments have on average requested 21% more funding than in their original December 2021 Notice of Funding Availability (“NOFA”) applications due to the impact of the factors mentioned in the Memorandum; and

WHEREAS, at the same time, the County of Santa Clara (“County”), which has helped fund many of the projects funded by the City over the last years, has now depleted the

Measure A funds allocated for investment in the development of new affordable housing in San José; and

WHEREAS, the County provided an average of \$200,000 per unit from Measure A funds, which means that each development that was jointly funded received up to \$325,000 per unit from the City and County contributions combined; and

WHEREAS, because of increased costs and depleted Measure A funds, per unit construction and permanent funding requests have increased and in response to these increasing funding requests, Housing Department staff recommends an update to its City Council approved March 2021 Multi-Family Underwriting Guidelines Sections 4.3 and 4.4 to increase the per unit funding for the construction and permanent loans from \$125,000 to \$325,000 per unit in order provide support to developments in need of additional gap financing;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SAN JOSE THAT:

The changes to the Housing Department Underwriting Guidelines previously adopted by Council Resolution 78761 and amended by Resolution 79784, amending Sections 4.3 and 4.4, shown in Attachment A, are hereby approved.

ADOPTED this _____ day of _____, 2022, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

SAM LICCARDO
Mayor

ATTEST:

TONI J. TABER, CMC
City Clerk

ATTACHMENT A

UNDERWRITING GUIDELINES UPDATES

The following sections of the City of San Jose Housing Department Affordable Housing Gap Financing **MULTI-FAMILY UNDERWRITING AND COMPLIANCE MANUAL** ("Underwriting Guidelines") (effective date: as of March 2021) will be amended to read as follows:

4.3 Construction Loan	
<i>Amount</i>	Up to \$325,000 per unit + prior predevelopment capitalized interest (see Loan Repayment)
<i>Term</i>	12 to 36 months, with two six-month extensions
<i>Rate</i>	Up to 4% simple; accrued interest may be capitalized, up to the committed amount
<i>Security</i>	DOT required; completion guaranty from the project sponsor
4.4 Permanent Loan	
<i>Amount</i>	Up to \$325,000 per unit + prior capitalized interest (see Loan Repayment)
<i>Term</i>	30-55 years
<i>Rate</i>	Up to 4% simple
<i>Recourse</i>	Non-recourse to the borrower in the permanent phase
<i>Security</i>	DOT required