

COUNCIL AGENDA: 2/5/19
FILE: 18-1864
ITEM: 4.5

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Margaret McCahan

SUBJECT: SEE BELOW

DATE: January 23, 2019

Approved

D. D. S. L.

Date

1/24/19

COUNCIL DISTRICT: 6

SUBJECT: APPROVAL OF A LOAN COMMITMENT TO CHARITIES HOUSING DEVELOPMENT CORPORATION OF SANTA CLARA FOR THE DEVELOPMENT OF PAGE STREET, A NEW AFFORDABLE APARTMENT COMMUNITY LOCATED AT 329-353 PAGE STREET

RECOMMENDATION

- (a) Adopt a resolution approving a total commitment of up to \$7,176,640 in Low and Moderate Income Housing Asset Funds ("LMIHAF") for a Construction-Permanent Loan to Charities Housing Development Corporation of Santa Clara County, or an affiliated entity ("CHDC" or "Developer"), for the Page Street Apartments ("Project"), a new affordable development to be located at 329-353 Page Street ("Site"), in order to offer rent- and income-restricted apartments for 81 extremely low-income and very low-income households, and one unrestricted manager's unit ("Project");
- (1) Authorizing the Director of Housing to negotiate and execute loan documents, amendments, and all other documents related to City financing for the Project; and
 - (2) Approving a loan-to-value ratio of greater than 100% for this loan.
- (b) Adopt the following 2018-2019 Appropriation Ordinance Amendments in the Low and Moderate Income Housing Asset Fund:
- (1) Decrease the Housing Project Reserve appropriation in the amount of \$7,176,640; and
 - (2) Increase the appropriation to the Housing Department for Housing Loans and Grants in the amount of \$7,176,640.

OUTCOME

Approval of the recommended actions will enable the Developer, CHDC, to assemble financing to build a new affordable development at 329-353 Page Street in San José. This development will provide affordable housing for 81 households in San José, including 27 apartments for formerly homeless individuals, of which ten units will be set aside for developmentally disabled individuals. **Attachment A** provides a project overview and site map for the project.

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 including, specifically, financing from the Affordable Housing and Sustainable Communities ("AHSC") program.

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 \$7,176,640 to provide 81 studio affordable units, which will include a set aside of 27 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. In addition, 10 of the 27 units at 30% AMI will be set aside for developmentally disabled individuals. There will be 27 units at 40% AMI and 27 at 50% AMI (these being the PSH units). Finally, there will be a three-bedroom manager's unit, for a total of 82 units. The Project will receive supportive service from Santa Clara County, and on-site service coordination from Catholic Charities of Santa Clara County.

In November 2017, the Developer formed the partnership, Page Street, L.P. and utilized a \$3,098,400 acquisition loan from Local Initiatives Support Corporation ("LISC"), coupled with a loan of \$2,096,609 from CHDC to purchase the Site and provide for predevelopment costs. The County will purchase the property prior to the construction loan closing. The City and County have agreed that the Borrower will enter into a long-term ground lease with the County, as owner of the Site, in order to ensure the long-term affordability of the project.

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

- **City of San José Tax-Exempt Multi-Family Housing Revenue Bonds ("City Bonds")**
The Developer is requesting the City to issue \$26,982,000 in tax-exempt multifamily housing revenue bonds to, in part, finance the project. Under a separate memo to City Council, Housing will seek approval to issue the City Bonds for the August 2019

submission to the California Debt Allocation Committee (“CDLAC”). Awards are anticipated to be announced by CDLAC in October 2019.

- **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 Developer applied for Measure A funds and the County Board of Supervisors appropriated \$14,000,000 in Measure A funds for the Project in June 2018.
- **Affordable Housing and Sustainable Communities (“AHSC”) Program**
The City Council agenda for February 5, 2019 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 some of these funding sources, the Developer must obtain a City loan commitment, as described in this memorandum.

ANALYSIS

The 82-unit Page Street Apartments project will be a five-story project with four stories of residential and one story of parking and common area uses. As noted above, the Developer has already been successful in securing approval of an allocation of Measure A funding from Santa Clara County for the Project in June 2018 and will be applying for AHSC funds in February of 2019. The City’s Construction-Permanent Loan commitment to the Developer of up to \$7,176,640 is necessary at this time because it will enable CHDC to pursue AHSC and other public and private funding sources for the Project.

Construction-Permanent Loan

The Housing Department recommends that City Council approve a Construction-Permanent Loan amount for up to \$7,176,640 from LMIHAF which equates to \$88,600 per unit, lower than the NOFA’s \$125,000 maximum threshold per unit subsidy. Capitalized interest from the construction phase is not included in the financing for this project because the City funds will be utilized as permanent financing only, not during the construction phase, therefore no interest will be accrued during the construction. The City’s Construction-Permanent Loan commitment will represent approximately 14% of the total financing for the Project. The City’s loan will be structured consistent with its underwriting guidelines and policies and will be repaid through a share of the Project’s net cash flow. Final loan terms will be underwritten, negotiated, and determined as the project 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 will be recorded against the County's leasehold. See **Attachment B** for a summary of the 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

While the projected value is not known at this time, 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 project's market value, leading to an increased LTV. An elevated LTV 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 project'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 project. 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 project 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 projects. Therefore, a site cannot be easily liquidated should a proposed project not proceed. This approval will enable the project 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 over 100% is warranted.

Affordability Unit Mix/Area Median Income Levels

The Developer proposes to build a unit mix as follows: 27 apartments restricted to VLI households at 50% of AMI, 27 restricted to Very Low-Income households at 40% of AMI (incomes of \$37,240), and 27 restricted to Extremely Low-Income households at 30% of AMI (incomes at \$27,950 for one person in a studio). Ten of the apartments will be set aside for individuals and families with disabilities. The Project will include 27 permanent supportive housing units for the chronically homeless. The Housing Department finds that this unit mix will help meet priorities expressed by City Council and it will position the Project to be competitive for alternative funding sources. It will further serve the goal of providing affordable and supportive housing for vulnerable residents, residents working in the restaurant industry, school

bus drivers, emergency medical technicians and substitute teachers, to name a few. The table below demonstrates the unit sizes and a breakdown of affordability restrictions for the 82 units.

Unit Size	Up to 30% AMI		% of Units	Up to 40% AMI		% of Units	Up to 50% AMI		% of Units	Total
	Units	Max Income		Units	Max Income		Units	Max Income		
0-BD	27	\$27,950	33%	27	\$37,240	33%	27	\$46,550	33%	81
Unrestricted Mgr Unit	NA	NA		NA	NA		NA	NA		1
Total	27			27			27			82

Next Steps

If CHDC 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 August 2019. Construction would initiate in March 2020 and conclude in September 2021. **Attachment C** provides an anticipated development timeline for the Project.

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 Page Street 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 other households 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.

PUBLIC OUTREACH

Prior to City Council's approval of the Project's entitlements on December 4, 2018, 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 April 2017 to June 2018, the Developer hosted a total of 19 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 Project. Many of the community's comments and suggestions were incorporated into the development. Ultimately, the Project received community support.

This memorandum will be posted on the City's Council Agenda website for the February 5, 2019 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. Estimate Costs:

Uses	Amount
Construction Loan	\$7,176,640
Construction loan Interest	\$0
Estimated Costs	\$7,176,640
Total "Up To" Permanent Loan Amount	\$7,176,640

2. SOURCE OF FUNDING: \$7,176,640 from Low and Moderate Income Housing Asset Fund (Fund 346).
3. FISCAL IMPACT: Funding in the amount of \$7,176,640 has been reserved in the Low and Moderate Income Housing Asset fund and is recommended as part of this memorandum to be appropriated to the Housing Loans and Grants appropriation to encumber and draw upon when constructed is initiated in Spring 2020. 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	2018-2019 Operating Budget Page	Last Budget Action (Date, Ord. No.)
346	8437	Housing Project Reserve	\$81,800,000	(\$7,176,640)	X-55	10/16//2018, 30172
346	0070	Housing Loans and Grants	\$17,950,000	\$7,176,640	X-54	6/19/2018, 30124

CEQA

Mitigated Negative Declaration for the Page Street Housing Project, File Nos. SP17-037 and AT18-012.

The Special Use Permit for Page Street was approved at the Planning Director's Hearing on December 5, 2018.

/s/

JACKY MORALES-FERRAND
Director, Housing Department



MARGARET MCCAHAN
Budget Director

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

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

ATTACHMENT A

Page Street Apartments Project Overview and Site Map

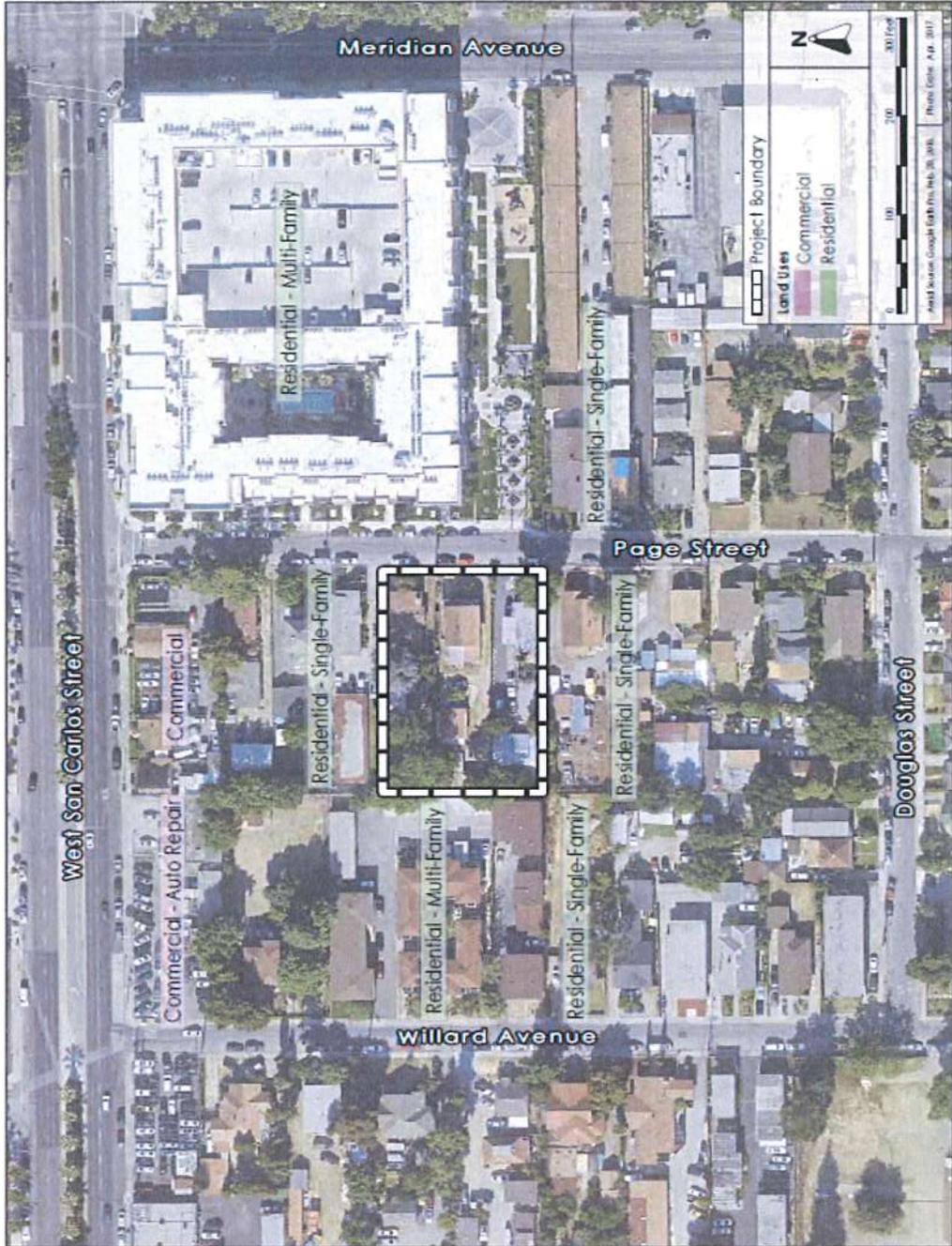


Developer	Charities Housing Development Corporation
Borrowing Entity/Limited Partnership	Page Street, L.P.
Architect	David Baker
Service Provider	Catholic Charities/County of Santa Clara (OSH)
Property Management	Charities Housing Property Management

Address	329-352 Page Street
Urban Village Plan	West San Carlos Urban Village Planning Area
Development Type	New Construction
Construction Type	Four Floors of Type III-A over Two Floors of Type 1-A
Parking Type Residential Parking Spaces/Ratio Commercial Parking Spaces	Surface and parking lifts 61 spaces/82 units= .74 spaces per unit none
Housing Type	Affordable with Supportive Services
Lot size	.76 acres (33,105 SF)
Units	81 units and 1 three-bedroom manager unit
Density	55 - 250 Dwelling Units/Acre
Gross Building Area Commercial Space Parking Space Residential Space	53,789 SF 0 5,963 SF 33,591 SF
Number of Project Based Vouchers	27
Prevailing Wages?	Yes
Developer's Compliance History	Good

ATTACHMENT A - Continued

Page Street Apartments
Site Map



ATTACHMENT B

Page Street Apartments Construction/Permanent Sources Plan for the Project

Construction

SOURCES OF FUNDS - CONSTRUCTION	
<u>SOURCE</u>	<u>AMOUNT</u>
Tax-Exempt Perm Bond	\$26,981,620
AHSC	\$2,348,414
County of Santa Clara	\$14,000,000
Accrued/Deferred Interest (County of Santa Clara)	\$650,326
Cost Deferred Unitl Conversion	\$989,235
Deferred Developer Fee	\$2,454,793
Capital Contributions	
General Partner	\$2,193,018
Limited Partners	\$1,808,250
Total Sources	\$51,425,656

Permanent

SOURCES OF FUNDS - PERMANENT	
<u>SOURCE</u>	<u>AMOUNT</u>
Perm Loan	\$2,278,000
AHSC GRANT	\$2,348,414
HCD AHSC Loan	\$2,241,967
City of San Jose	\$7,176,640
County of Santa Clara	\$14,000,000
Accrued/Deferred Interest (County of Santa Clara)	\$650,326
Deferred Developer Fee	\$2,454,793
Capital Contributions	
General Partner	\$2,193,018
Limited Partners	\$18,082,497
Total Sources	\$51,425,656

ATTACHMENT C

Page Street Apartments Anticipated Development Timeline

Apply for AHSC Funding	February 11, 2019
Apply for CDLAC/TCAC	July 2019
Bond Allocation Award	October 2019
Close Financing	March 2020
Start Construction	March 2020
Complete Construction	September 2021