



COUNCIL AGENDA: 2/5/19
FILE: 18-1865
ITEM: 4.6

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Margaret McCahan

SUBJECT: SEE BELOW

DATE: January 25, 2019

Approved

Date

1/25/19

COUNCIL DISTRICT: 3

SUBJECT: APPROVAL OF A LOAN COMMITMENT TO FIRST COMMUNITY HOUSING FOR THE DEVELOPMENT OF ROOSEVELT PARK APARTMENTS, A NEW AFFORDABLE APARTMENT COMMUNITY LOCATED AT 21 NORTH 21ST STREET

RECOMMENDATION

- (a) Adopt a resolution adopting the Mitigated Negative Declaration for the Roosevelt Park Apartments Mixed-Use Development (File No. SP17-027), for which an Initial Study was prepared, all in accordance with the California Environmental Quality Act (CEQA), as amended, and adopting a related Mitigation Monitoring and Reporting Program;
- (b) Adopt a resolution approving a total commitment of up to \$9,415,000, with \$8,915,000 in Low and Moderate Income Housing Asset Fund and \$500,000 in Inclusionary Housing Policy Funds, for a Construction-Permanent Loan to First Community Housing, or an affiliated development entity ("FCH" or "Developer"), including the capitalization of up to \$665,000 in construction period interest for the Roosevelt Park Apartments, a new affordable development to be located at 21 North 21st Street ("Site"), in order to offer rent- and income-restricted apartments for 79 extremely low-income, very low-income, low-income, and moderate income households, and one unrestricted manager's unit ("Project");
 - (1) Authorizing the Director of Housing to negotiate and execute loan documents 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.

- (c) Adopt the following 2018-2019 Appropriation Ordinance Amendment in the Low and Moderate Income Housing Asset Funds:
 - (1) Decrease the Housing Project Reserve appropriation in the amount of \$8,915,000;
and
 - (2) Increase the Committed Projects Reserve in the amount of \$8,915,000.

- (d) Adopt the following 2018-2019 Appropriation Ordinance Amendments in the Multi-Source Housing Fund:
 - (1) Decrease the Housing Project Reserve appropriation in the amount of \$500,000;
and
 - (2) Establish a Committed Projects Reserve appropriation in the amount of \$500,000.

OUTCOME

Approval of the recommended actions will enable the Developer, FCH, to assemble financing and complete predevelopment work to build a new affordable development at 21 North 21st Street in San José. This development will provide housing for 79 households in San José, including forty apartments will be set aside as possible supportive housing for formerly homeless individuals and families; ten additional apartments will be made available to youth transitioning out of foster care (i.e., TAY) and ten apartments being made available for developmentally disabled individuals and families; and 14 three-bedroom units will also be available for occupancy by large families. **Attachment A** provides a project overview and site map for the project.

BACKGROUND

A Notice of Funding Availability (“NOFA”) in the amount of \$100 million was released by the City in August 2018. This NOFA made funding available for housing developers to submit written proposals for affordable multifamily rental housing projects providing housing for extremely low, very low and low income individuals and families. It prioritized projects that provided housing for homeless households, that achieved cost effectiveness, and which leveraged additional non-City sources of financing including specifically financing from the Affordable Housing and Sustainable Communities (“AHSC”) program.

In response to the NOFA released by the City, the Developer submitted a proposal with a request for a commitment of funding in the amount of up to \$9,415,000 in City funds to provide 79 affordable units including 40 affordable units to be made available as Rapid Rehousing for households earning up to 30% AMI. In addition, 20 units will be income restricted at 50% AMI; 9 units will be income restricted at 60% AMI; 10 units will be income restricted at 80% AMI (also considered to be tax credit qualifying low-income units). The Developer will make 10 units available to youth aging out of the foster care system (TAY) and 10 units available to intellectually or developmentally disabled individuals.

The Developer is also currently pursuing or has recently been approved for other construction/permanent funding sources for the Project, including:

- **Measure A Affordable Housing Bond (“Measure A”)**
On September 26, 2017, the County issued a Notice of Funding Availability (“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 has been approved for Measure A funds at the December 18, 2018 Board of Supervisors’ meeting in the amount of \$14,400,000 with \$4,400,000 to be used for the County’s acquisition of the land plus related costs.
- **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 are necessary for the Developer to submit an AHSC application.
- **City of San José Tax-Exempt Multifamily Housing Revenue Bonds (“City Bonds”)**
The Developer will require that the City issue approximately \$35,707,000 in tax-exempt multifamily housing revenue bonds for the construction of the project. This bond issuance will be approved through a separate memo to City Council submitted closer to the submission of an application to the California Debt Limit Allocation Committee (“CDLAC”).

In order to apply for all supplementary funding sources, the Developer must obtain a City loan commitment as described in this memorandum.

The Developer has acquired the site from an unrelated seller via a negotiated transaction for \$4,000,000 (\$50,000 per unit) and presently holds title to the land, which is evidenced through a Deed of Trust. Based upon the Sales Comparison Approach for valuation, the site’s value has been determined to be \$4,100,000. The County will purchase the property from the Developer prior to the construction loan closing. Due to the fact that the County is investing a greater amount of money in this project, the City and County have agreed that FCH will enter into a long-term ground lease with the County, as owner of the Site, to ensure the long-term affordability of the Project.

ANALYSIS

The Project

The Roosevelt Park Apartments project will be a 9-story project consisting of seven rentable floors and two levels of parking. One rentable floor will be approximately 7,600 square feet of

commercial space which will be combined with approximately 2,600 square feet of ground and podium level community space in response to planning requirements. The Developer has acquired the land for this project using acquisition and predevelopment funds from Housing Trust Silicon Valley. 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 December 2018 and will be applying for AHSC funds in February 2019. The City's Construction-Permanent Loan commitment is necessary at this time because it will enable FCH 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 \$9,415,000 in Low and Moderate Income Housing Asset and the Multi-Source Housing Funds. The City's permanent loan will represent approximately 15% 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 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 AHSC funding for the Project, the Housing Department may return to the City Council for consideration of alternative 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, and it 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, as the project's projected operating income is expected to be at least 1.15 times the permanent mortgage debt service payments. This standard is a common standard for assessing the financial feasibility of affordable housing developments.

Security for a City loan with a high LTV is that upon development, a portion of the operating revenue less operating expenses is guaranteed as loan repayments to the City. 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

Forty of the apartments will be set aside as Rapid Rehousing units for formerly homeless individuals and families; ten of the units will be made available to youth transitioning out of foster care (i.e., TAY); ten units will be available for developmentally disabled individuals and families; and there will be 14 three-bedroom units available for occupancy by large families. 20 units will be income restricted at 50% AMI; 9 units will be income restricted at 60% AMI; 10 units will be income restricted at 80% AMI. The units at 80% AMI are in response to a recent change in IRS and TCAC rules that allow “income averaging” for unit AMIs up to 80% AMI (still considered low income). Under these new rules, the average affordability of the project may be no greater than 59%. The addition of these units will allow for the inclusion of “workforce” units along with other targeted populations. The table below demonstrates the units’ sizes and breakdown of affordability restrictions for the 80 units. This development will serve a range of income levels affordable to residents with occupations such as fast food cooks, restaurant workers and cashiers in the 30% units and nurses, paramedics and construction workers in the 50%to 80% units.

Unit Size	Up to 30% AMI		% of	Up to 50% AMI		% of	Up to 60% AMI		% of	Up to 80% AMI		% of	Total
	Units	Max Income	Units	Units	Max Income	Units	Max Income	Units	Max Income	Units	Max Income	Units	
0-BD	12	\$27,950	15%	8	\$46,550	10%	4	\$55,860	5%	4	\$66,150	5%	28
1-BD	2	\$31,950	3%	6	\$53,200	8%	1	\$63,840	1%	2	\$75,600	3%	11
2-BD	19	\$35,950	24%	3	\$59,850	4%	2	\$71,820	3%	2	\$85,050	3%	26
3-BD	7	\$39,900	9%	3	\$66,500	4%	2	\$79,800	3%	2	\$94,450	3%	14
Unrestricted Mgr Unit	NA	NA		NA	NA		NA	NA		NA	NA		1
Total	40			20			9			10			80

CEQA Action

The environmental impacts of this project are addressed in the Initial Study/Mitigated Negative Declaration (IS/MND) for the Roosevelt Park Apartments Mixed-Use Development (File No. SP17-027). The IS/MND was completed in compliance with the California Environmental Quality Act (CEQA) and reflects the City's independent judgment and analysis. The Initial Study

identified potentially significant environmental impacts on air quality during construction, nesting migratory birds and raptors, unknown archaeological and/or paleontological resources, exposure to residual chemicals in contaminated soil and groundwater, and noise during construction. Mitigation measures have been included in these areas in order to reduce impacts to less than significant levels.

The Draft IS/MND was circulated for public review from December 19, 2018 through January 7, 2019, a 20-day public circulation period. Comments were received from the Amah Mutsun Tribal Band and the Santa Clara County Parks and Recreation Department (County Parks Department) during the Draft IS/MND circulation period. The Amah Mutsun Tribal Band comments stated that the project site is outside their tribal lands, but noted that California Native American Artifacts or Human Remains may be encountered during construction activities, and therefore, construction crews should be trained to recognize sensitive resources that may be encountered. The County Parks Department stated that the IS/MND did not identify the planned Coyote Creek Trail and requested that an analysis be performed on the potential impacts of the project on the planned trail. Responses to comments can be found on the City's website as listed below.

The Director of Planning, Building and Code Enforcement, pursuant to the requirements of Title 21 of the San José Municipal Code, reported that there is no substantial evidence in the public record received to date that the project will have a significant effect on the environment with the identified mitigation measures included in the project. The Draft IS/MND, associated appendices, and responses to public comments are available for review on the City's Negative Declaration/Initial Study website at <http://www.sanjoseca.gov/index.aspx?NID=2165>.

Next Steps

If FCH 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 March 2020. Construction would initiate in May 2020 and conclude in May 2022. See **Attachment C – Anticipated Development Timeline**.

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 Roosevelt Park Apartments 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:

Alternative #1: *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 families via the Rapid Rehousing component of the proposed development as well as provide affordable housing opportunities to youth transitioning out of foster care; persons with disabilities; and large families currently residing in San José. In addition, the proposed development will provide 10 units affordable to tax credit eligible “Workforce” households earning up to 80% AMI.

Reason for not recommending: The proposed Project will help to meet the demand for affordable housing that is affordable to the most vulnerable homeless individuals and families, persons with disabilities, and large 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, the Developer will implement 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. The Developer will host neighborhood and/or community meetings and address a wide array of topics such as Project design, services, and property management.

In addition, 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. ESTIMATED COSTS:

Uses	<u>Amount</u>
Construction Loan	\$8,750,000
<u>Construction loan Interest</u>	<u>\$665,000</u>
Total "Up To" Permanent Loan Amount	\$9,415,000

2. SOURCE OF FUNDING: \$8,915,000 from Low and Moderate Income Housing Asset Fund (Fund 346) and \$500,000 in Affordable Housing Impact Fee Revenue from the Multi-Source Housing Fund (Fund 448).
3. FISCAL IMPACT: Funding from the Low and Moderate Income Housing Asset Fund and the Multi-Source Housing Fund, is recommended per this memorandum and the funding amount will be placed in a Committed Projects Reserve appropriation (\$9,415,000) until funds are needed. At that time, action will be brought forward to align the budget with the project schedule. 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	(\$8,915,000)	X-55	10/16/2018, 30172
346	8520	Committed Projects Reserve	\$14,784,212	\$8,915,000	X-55	10/16/2018, 30172
448	8437	Housing Project Reserve	\$13,695,000	(\$500,000)	X-70	6/19/2018, 30124
448	New	Committed Projects Reserve	N/A	\$500,000	N/A	N/A

CEQA

Mitigated Negative Declaration for the Roosevelt Park Apartments Mixed-Use Development, File No. SP17-027.

The Roosevelt project is currently under review within the Planning Department to obtain its necessary entitlements. The project is anticipated to be scheduled for the February 6, 2019 Planning Director's Hearing.

Typically, affordable housing developments seeking City funding will have completed the planning entitlement process prior to requesting approval of funding. However, due to the compressed AHSC timeline (application deadline: February 11, 2019), the funding request will precede the completion of the entitlement process.

/s/
JACKY MORALES-FERRAND
Director, Housing Department


MARGARET MCCAHAN
Budget Director

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

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

ATTACHMENT A

Roosevelt Park Apartments Project Overview and Site Map

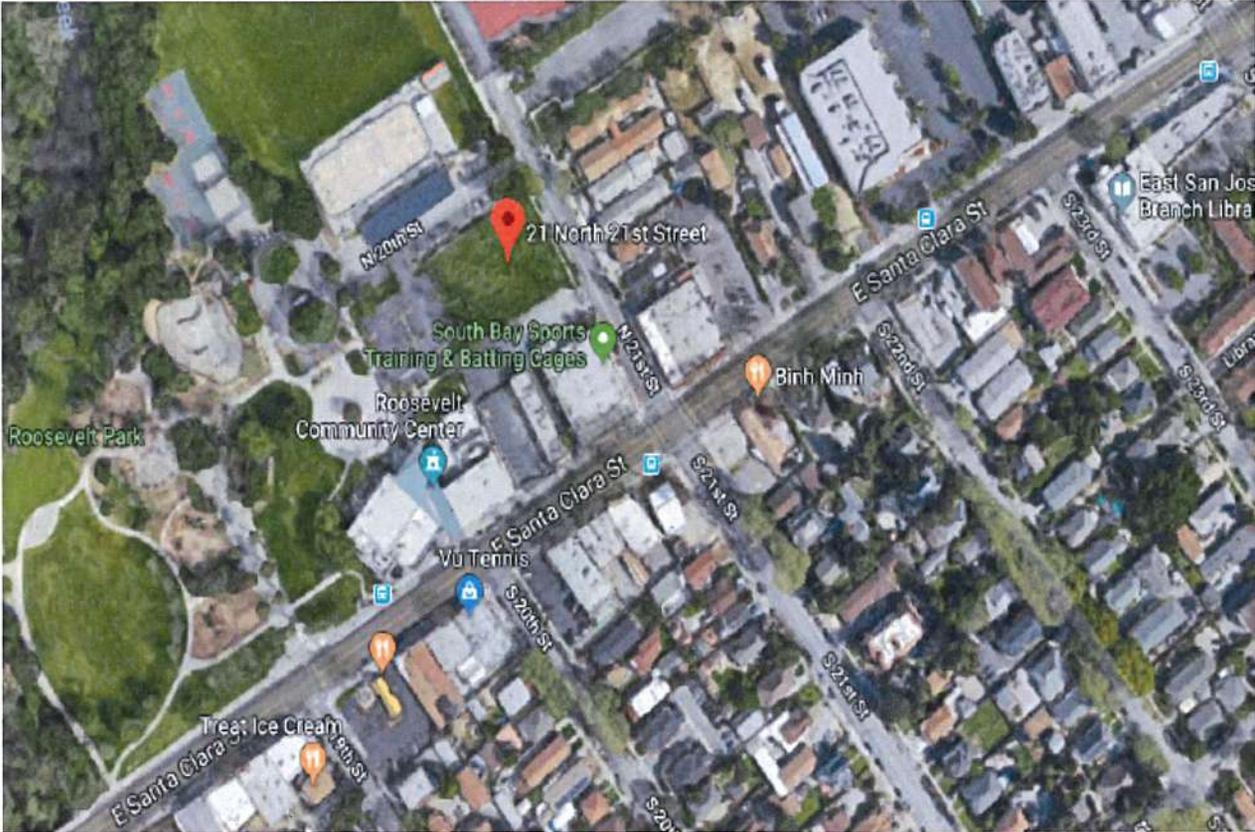


Developer	Satellite Affordable Housing Associates
Borrowing Entity/Limited Partnership	TBD
Architect	OJK Architecture and Planning
Service Provider	Health Trust, First Place for Youth, Housing Choices Coalition
Property Management	The John Stewart Company

Address	21 N 21 st Street, San José, 95116
Urban Village Plan	Roosevelt Park Urban Plan
Development Type	Mixed Use
Construction Type	Type 1A
Parking Type	Podium parking
Residential Parking Spaces/Ratio Commercial Parking Spaces	16 residential stalls, 35 commercial stalls, and 18 flex stalls for motorcycles or vehicles
Housing Type	Affordable Housing
Lot size	0.47 acres
Units	80 units
Density	170 DU/acre
Gross Building Area Commercial Space Parking Space Residential Space	TBD
Prevailing Wages?	Yes
Developer's Compliance History	In compliance

ATTACHMENT A - Continued

Roosevelt Park Apartments
Site Map



ATTACHMENT B

Roosevelt Park Apartments Construction/Permanent Sources Plan for the Project

CONSTRUCTION SOURCES

SOURCES OF FUNDS - CONSTRUCTION	
<u>SOURCE</u>	<u>AMOUNT</u>
Tax-Exempt Perm Bond	\$35,707,000
City of San Jose	\$8,750,000
County of Santa Clara	\$9,500,000
Accrued/Deferred Interest (Santa Clara County)	\$797,500
Park Fee Waiver	\$856,000
Cost Deferred Until Conversion	\$2,078,840
Deferred Developer Fee	\$500,000
Capital Contributions	
General Partner	\$5,208,942
Limited Partners	\$1,860,361
Total Sources	\$65,258,643

PERMANENT SOURCES

SOURCES OF FUNDS - PERMANENT	
<u>SOURCE</u>	<u>AMOUNT</u>
Tax-Exempt Perm Bond	\$3,371,101
HCD AHSC Loan	\$9,192,545
City of San Jose	\$8,750,000
Accrued/Deferred Interest (CSJ)	\$665,000
County of Santa Clara	\$10,000,000
Accrued/Deferred Interest (Santa Clara County)	\$570,000
Park Fee Waiver	\$856,000
Deferred Developer Fee	\$500,000
Capital Contributions	
General Partner	\$5,208,942
Limited Partners	\$26,145,055
Total Sources	\$65,258,643

ATTACHMENT C

Roosevelt Park Apartments Anticipated Development Timeline

Apply for AHSC Funding	February 2019
Apply for CDLAC/TCAC	October 2019
Bond Allocation Award	December 2019
Submit Construction Drawings for Building Permits	January 2020
Close Financing	May 2020
Start Construction	May 2020
Complete Construction	September 2021