



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: November 25, 2019

Approved

D. D. Syl

Date

12/6/19

COUNCIL DISTRICT: 6

**SUBJECT: APPROVAL OF THE COUNTY OF SANTA CLARA OPTION TO
PURCHASE A 179-UNIT AFFORDABLE HOUSING PROJECT KNOWN AS
CURTNER STUDIOS APARTMENTS**

RECOMMENDATION

Adopt a resolution:

1. Approving the County of Santa Clara Option to Purchase Curtner Studio Apartments, a 179 affordable unit housing project located at 701 Curtner Avenue, San José;
2. Consenting to the subordination of the City's Deed of Trust to the County's Option to Purchase which includes City approval of removing the City's Deed of Trust from the fee title and placing City's Deed of Trust on the leasehold, should the County elect to exercise its Option to Purchase;
3. Consenting to the request of Curtner Studios LP to refinance with the County of Santa Clara for a construction to permanent financing loan of up to \$14,950,000; and
4. Authorizing and directing the City Manager or Director of Housing to negotiate and execute City documents to complete this transaction, and any amendments thereto.

OUTCOME

Approval of the recommended actions will enable the County of Santa Clara (County) to invest up to \$14,950,000 in the 179 affordable unit housing project ("Project") located at 701 Curtner Avenue, San José ("Property") and enter into an Option to Purchase Agreement with Curtner Studios LP ("Borrower"). The result will be a rehabilitation of the project to include added common area for residents, added offices for property management, and resident services.

BACKGROUND

The background for this memorandum will provide: 1) a summary of the need for permanent supportive housing throughout Santa Clara County; 2) the financing history of the Curtner Studios housing development; 3) a summary of current project challenges; and 4) County approval of funding for Curtner Studios.

Summary of the Need for Supportive Housing

Rental costs continue to rise across the Bay Area, deepening a housing crisis that disproportionately impacts the region's lowest-income residents, including individuals and families with low- and moderate wage jobs, seniors and people with disabilities on fixed incomes, and single-income families with children. For those dedicating a significant portion of their income to housing costs, homelessness is just one medical emergency, missed paycheck, or rent increase away.

Since implementation of the Community Plan to End Homelessness began in 2015, Santa Clara County has made significant progress. Nearly 8,000 people have been stably housed. More than 3,000 new affordable apartments have been created, halfway toward the goal of creating 6,000 new affordable housing opportunities for individuals and families experiencing homelessness. The County of Santa Clara, the Santa Clara County Housing Authority, the City of San José, and other local cities have increased investment in affordable housing development in response to urgent community need. The City of San José has committed to dedicating 45% of investment in new construction to provide for households at 30% of the area median income.¹

Although this is significant progress, for every person that is stably housed in Santa Clara County, three more homeless households request assistance for the first time. The need for supportive housing continues to grow as households find themselves facing homelessness.

Financing History of the Curtner Studios Housing Development

On August 24, 1993, the City Council approved a loan in the amount of \$2,648,302 with JSM Enterprises, Inc. (JSM) for the construction of 180 studio apartments (144 restricted-affordable), known as Curtner Gardens Inn. The development was intended to be a place where Silicon Valley employees could reside during the week while spending weekends with their families elsewhere. Construction of the original development was completed in 1994. The site included 36 market-rate apartments (including one for the on-site-property manager), 108 low-income apartments, and 36 very low-income apartments. Due to the target population of commuting households, the building did not include any community rooms, which are typical in affordable housing developments.

¹ Santa Clara County, Supportive Housing System Progress:

<https://www.sccgov.org/sites/osh/ContinuumofCare/ReportsandPublications/Documents/SOH%20Report%202018%201-pager%20Supportive%20Housing%20System%20Progress.pdf>

JSM's business model proved to be unsuccessful and the Property was put on the market. First Community Housing (FCH) acquired the Property in December 2007 with partial financing from the City; the City's acquisition/rehabilitation loan of \$4,942,845 constituted approximately one-quarter of the Project's financing. As consideration for the City loan, FCH agreed to modify the project's rent-restricted income targeting to achieve greater affordability by converting 36 unrestricted units to affordable units. FCH also committed to rehabilitate the building with substantial green building features to increase energy efficiency, water conservation, and indoor air quality in the existing building. The project was renamed Curtner Studios at that time. Rehabilitation of the building was completed in early 2009.

In addition to the City loan, FCH received financing from the County of Santa Clara in the form of Mental Health Services Act (MHSA) funds, which required that 27 of the apartments be reserved for individuals with mental health issues. The County provided case management and other supportive services for that population.

In July 2015, FCH entered into a Memorandum of Understanding with Abode Services to participate in the Project Welcome Home (PWH) program, which provides case management and other supportive services. Curtner Studios can accommodate up to 40 formerly homeless individuals under this program.

Summary of Current Project Challenges

FCH started receiving complaints from neighbors of the Project around 2014. The lack of onsite communal areas has caused residents to gather outside the building on adjacent business premises. This has prompted non-residents who are homeless or at risk of homelessness to congregate on adjacent premises and throughout the neighborhood. Residents of the nearby mobile home park and neighboring business owners have expressed concerns about loitering and trespassing.

In 2015, FCH determined that the property management firm being used was not effective in addressing issues that were occurring at the development. Consequently, FCH changed property management firms for this property to the John Stewart Company, a well-respected firm in this field.

While the change in project management was a positive step, it did not address the need for additional community space. The project has also been faced with tight operating margins due to the low rents charged to the tenants and the needs of the population being served. This has constrained the budget for facility upkeep and limited the amount of services that can be provided to tenants.

County Approval of Funding for Curtner Studios

In an effort to meet the ongoing need for supportive housing, and address operational issues at Curtner Studios, the County and FCH created a plan for the development. On December 18,

2018, the County Board of Supervisors approved the delegation of authority to the County Executive, to negotiate and execute a \$14,950,000 loan for Curtner Studios. The County's investment will address the issues facing the site and convert the development to a 100% supportive housing project. Additional detail on the County funding and the plan to address the issues at Curtner Studios is provided in the Analysis section of this memorandum.

ANALYSIS

Since Curtner Studios was constructed as a mixed-income development in 1994, the site has evolved to house primarily at-risk individuals with incomes between 30% to 50% of the Area Median Income (AMI). However, this evolution has occurred without the addition of sufficient resident services and onsite communal space for the tenants. Additionally, one-third of residents living in the 30% AMI apartments are rent burdened, paying more than 50% of their income on housing costs. Finally, the development has insufficient operating income to support the needs of the development.

As mentioned in the background section of this memo, the County of Santa Clara recently approved funding that are intended to address the problems at Curtner Studios. This section of this memo discusses the Santa Clara County financing terms and the plan for addressing operational issues. This plan includes the creation of an Enhanced Service Area (ESA) to support homeless populations while addressing the impacts of homelessness in neighborhoods.

Santa Clara County Financing Terms

As previously stated, the County Board of Supervisors approved the delegation of authority to the County Executive to negotiate and execute a \$14,950,000 construction to permanent loan for Curtner Studios. This loan is currently under negotiations with FCH. Once the County loan terms are finalized they will be shared with the City. The County is requiring an Option to Purchase the land from FCH as collateral for its loan.

FCH has requested the City consent to the limited partner interest transfer, refinancing and rehabilitation of the 179-unit Curtner Studio Apartments. FCH has also requested that the City consent: (1) to the execution and recording of County's Option to Purchase, (2) to the subordination of the City's Deed of Trust to the County Loan and County Option to Purchase, and (3) to removing the City's Deed of Trust from the fee and placing the City's Deed of Trust on the leasehold upon County's exercise of its Option to Purchase. The City Affordability Restriction would remain senior to all lien priorities, and on the fee. The City's existing loan will be subordinate to the new County loan and will be paid as funds are made available through the development's remaining operating income. As consideration for these changes, the affordability restriction will be extended by an additional 55 years.

If approved, the financing from the County will allow FCH to implement the plan for addressing operational issues at Curtner Studios.

Plan for Addressing Operational Issues

The County financing will address three primary project challenges by providing: 1) additional common area for resident use; 2) increased operating income to ensure project viability; and 3) increased supportive services for new and existing tenants.

Additional Common Area for Resident Use

The property's original design did not include common area space or space for enhanced resident and property management services. The proposed rehabilitation addresses this by redesigning the front entry to include larger community spaces (approximately 800 of added square footage) including an outdoor patio. New management offices will be placed directly at the lobby entrance along with a security station to establish a physical presence for security. Additional upgrades include more private social service office space, improvements to the community kitchen, computer lab, and outdoor tables and planters. All south-facing windows would be replaced for greater thermal efficiency.

Increased Operating Income to Ensure Project Viability

The financing plan will increase operating income for the property. The proposed transaction will bring the number of vouchers for various programs from the current number of 67 to 178. All new vouchers will be added to the development through attrition of the current tenants. The proposed structure will include 71 new Rapid Rehousing (RRH) designated apartments and 40 new Veterans Affairs Supportive Housing (VASH) vouchers. These vouchers will provide stable, ongoing operating income for the development. Additionally, the vouchers will limit the tenant portion to paying 32% of their income on rent, addressing the rent burden of Curtner Studios tenants over time. The chart below illustrates the proposed structure of affordability levels and associated supportive housing programs. The final number of vouchers by program continues to be negotiated.

	Current	Proposed	Change	Program Description*
30% AMI	126	125	(1)	71 RRH 16 VASH 8 HSA 30 PWH
40% AMI	0	24	+ 24	24 VASH
50% AMI	44	29	(15)	19 MHSA 10 PWH
60% AMI	8	0	(8)	-
Manager's Unit (one bedroom)	1	1	-	-
Total	179	179		

**Program descriptions are provided below.*

The following programs will be utilized as a part of the proposed Curtner Studios development:

- **Rapid Rehousing-** A type of housing program that connects families and individuals to permanent housing through time-limited financial assistance and targeted supportive services. RRH program participants are provided shallow or declining rent subsidies, other temporary financial assistance, and time-limited case management and other support services. In RRH programs, individuals and families eventually take over the full rent of their leased housing units. After “transitioning in place,” the individuals and families may reside in the apartment so long as they abide by the lease. If and when a RRH unit becomes vacant, the apartment will be filled by a new RRH participant. To ensure that individuals and families can transition in place, apartments that are set aside for RRH programs shall have their rents restricted to a level affordable to households earning no more than 30% of AMI, adjusted for household size.
- **Veterans Affairs Supportive Housing–** This program houses veterans eligible to be served by the Department of Veterans Affairs (VA). Services are provided by the VA for these residents.
- **Mental Health Services Act (MHSA) –** The California MHSA provides increased funding, personnel and other resources to support county mental health programs and monitor progress toward statewide goals for children, transition age youth, adults, older adults and families.
- **Project Welcome Home (PWH) –** This is the first pay for success (PFS) project in California. The project, in partnership with Abode Services, provides community-based clinical services and permanent supportive housing to 150-200 chronically homeless individuals who are frequent users of the County’s emergency rooms, acute mental health facilities and jail.

Setting aside 111 new vouchers will provide additional operating revenue for the development and services for the residents. These changes will provide ongoing stability to the Curtner Studios development.

Increased Services for Existing and New Residents

As mentioned, services are provided for residents placed in housing as a part of the RRH, VASH, MHSA and PWA programs. These services will be funded by the County and the VA (for VASH residents). These services will be coordinated with the onsite property management staff and will provide a higher level of support to residents of Curtner Studios.

Enhanced Service Area

In addition to the planned structural changes that will create a community space inside the building and the resident resources that would accompany the conversion into a permanent supportive housing development, the City Administration would also create an Enhanced Service Area for the hosting neighborhood to achieve the dual purpose of supporting homeless

populations while addressing the impacts of homelessness in neighborhoods. As previously described in other housing-related memos, including the Supplemental Memorandum for the Annual Homeless Report and the 2019-2020 OWL program, the Administration is placing special emphasis on housing projects that support homeless populations by enhancing services for the surrounding neighborhood. Enhanced services are determined by the unique needs of each neighborhood, but may include activities such as increased litter pick up, illegal dumping sweeps, or proactive parking enforcement. As this project moves forward, the Housing Department will work with the City Manager's Office and other departments to assess the needs for this location and ensure that neighborhood concerns are addressed.

CONCLUSION

City Staff recommends approval of this transaction to rehabilitate the Curtner Studios property to accommodate more communal space for the residents, property management, and resident services. The additional vouchers also provide for additional operating revenue to improve the financial viability of the Curtner Studio's development.

This transaction will also help meet the City's goals as identified in the Community Plan to End Homelessness, by providing 111 additional housing opportunities for formerly homeless individuals. As a result of this transaction, nearly all residents will now receive on-site supportive services. The property will have new added affordability restrictions by both the City and County, preserving affordability for an additional 55 years.

EVALUATION AND FOLLOW-UP

The Housing Department provides a bi-annual Production and Preservation Report. The results of this Project will be included in upcoming reports and made available on the Housing Department website.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

POLICY ALTERNATIVES

Alternative #1: Not to Consent to the County's Option to Purchase

Pros: The City interest would remain on the fee title for the City's previous loan on the property.

Cons: The County investment of \$14 million would be at risk of not funding, and if funded, the County loan would be unsecured. Without the County's loan the property would continue to be challenged by inadequate communal, resident service and property management space for the at risk residents.

Reason for not recommending: The County's future investment of \$14,950,000 exceeds the City's original loan of \$5,042,845 to acquire and rehabilitate the Curtner Studios property. The property would continue to suffer because of the lack space for resident services, property management and common area.

PUBLIC OUTREACH

This memorandum was posted on the City's website prior to the City Council meeting on December 17, 2019.

COORDINATION

In preparation of this memo the following departments have coordinated the Housing Department, City Attorney's Office, and Manager's Budget Office. Additionally, as described in the Analysis section above, Housing will coordinate with the City Manager's Office to develop an Enhanced Service Area following completion of the rehabilitation. Inter-departmental coordination for enhanced services will include Parks Recreation Neighborhood Services, Department of Transportation, Environmental Services Department, and the City Manager's Office.

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 2015-2020*, adopted by City Council on May 5, 2015, 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."

COST SUMMARY/IMPLICATIONS

If the recommendations in this memorandum are approved the City interest would remain on the fee for the City's previous loan on the property, but the City's interest would become subordinate to the County's interest once the County exercises the Option to Purchase. Following an exercise of the Option to Purchase by the County, the City loan and City deed of trust will be removed from the fee and placed only on the leasehold (improvements). The City's affordability restriction will remain unsubordinated and on the fee title. The City's collection of fees to monitor and maintain the affordability restrictions would continue.

CEQA

Mitigated Negative Declaration for the Curtner Gardens Inn. File No. PDCSH 91-05-043.

/s/

JACKY MORALES-FERRAND

Director of Housing

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