



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

SUBJECT: SEE BELOW

FROM: Jacky Morales-Ferrand
Jim Shannon

DATE: December 18, 2019

Approved D. D. S. L.

Date 12/18/19

COUNCIL DISTRICT: 5

SUBJECT: APPROVAL OF A LOAN COMMITMENT TO AFFIRMED HOUSING GROUP INC, FOR THE DEVELOPMENT OF THE ALUM ROCK FAMILY HOUSING DEVELOPMENT, A NEW AFFORDABLE APARTMENT COMMUNITY

RECOMMENDATION

- (a) Adopt a resolution:
 - (1) Approving a total commitment of up to \$9,350,000 in Low and Moderate Income Housing Asset Funds for a Construction-Permanent Loan to Affirmed Housing Group, Inc., or an affiliated development entity, and capitalization of up to \$100,000 in construction period interest for the Alum Rock Family Housing Apartments project, located at 2350 Alum Rock Avenue, which is being developed to offer 85 affordable, rent-restricted apartments and two unrestricted manager's units;
 - (2) Authorizing the Director of Housing to negotiate and execute loan documents and all other documents related to City financing for the Development;
 - (3) Approving a loan-to-value ratio of greater than 100% for this loan; and
 - (4) Authorizing a change in City Loan terms to allow an increase in the Development's rents and income up to 60% of the Area Median Income (or low-income threshold) for new tenants in the event of the expiration or termination of subsidy contracts, and for all tenants in the event of a foreclosure, to the extent the City has determined such increase is needed for feasibility of the Development.
- (b) Adopt the following Fiscal Year 2019-2020 Appropriation Ordinance Amendments in the Low and Moderate Income Housing Asset Fund:
 - (1) Decrease the Housing Project Reserve appropriation in the amount of \$9,350,000; and
 - (2) Increase the Committed Project Reserve appropriation in the amount of \$9,350,000.

OUTCOME

Approval of the recommended actions will enable the Developer to assemble financing to build a new affordable development at the site located at 2350 Alum Rock Avenue (*See Attachment A-Site Map*). The Alum Rock Family Housing development will provide 85 affordable housing units, with 51 Extremely Low Income (ELI) units, 18 Very Low Income (VLI) units, and 16 Low Income (LI) units, and two unrestricted manager's units, for a total of 87 households in San José. Of these units, 29 will be supportive housing units. This funding commitment will result in a total of 1,725 affordable housing units completed, under construction, or entitled since January 2018 that will be counted towards the Mayor and City Council's 10,000-unit goal, including a total of 685 units that will be set aside for formally homeless persons.

EXECUTIVE SUMMARY

In response to the \$100 million Notice of Funding Availability last year, Affirmed Housing applied for a funding commitment in the amount of \$9,350,000 to develop 87 apartments for extremely-low-, very low-, and low-income individuals and families. This development plans to utilize funds from the City's Low and Moderate Income Housing Asset funds, Santa Clara County Measure A Affordable Housing Bond funds, Tax-Exempt Multi-Family Housing Revenue Bonds, and state tax credits. Approval of this funding commitment will allow the developer to move forward with an application to the California Debt Limit Allocation Committee.

BACKGROUND

On August 31, 2018, following the City Council's direction, the Housing Department issued a \$100 million Notice of Funding Availability ("NOFA") for the development of affordable housing for extremely-low-, very low-, and low-income individuals and families. The NOFA prioritized developments that provided housing for homeless households, that achieved cost effectiveness, and that leveraged additional non-City sources of financing.

In response to the NOFA, the Developer submitted a development proposal with a request for a commitment of funding in the amount of up to \$9,350,000 to provide 85 affordable units, of which 29 units will be set aside for permanent supportive housing. All of the supportive units will have Project Based Vouchers. Of the 29 supportive units, 22 will be studios, available for residents earning 30% of the area median income (AMI) or less. The remaining seven units will be one bedrooms also available for residents earning 30% of the AMI. The Development will receive supportive service from Santa Clara County, and on-site service coordination from PATH (People Assisting the Homeless) of San José/Bay Area.

The guidelines stated that the City would allocate funding at \$125,000 per unit, and the Alum Rock Family Housing Development was awarded \$107,471 per unit or \$9,350,000. (*See Attachment B - Construction/Permanent Sources for the Development.*)

The Developer will also pursue, or has obtained, additional supplemental construction and permanent funding sources for the Alum Rock Family Housing Development, including:

- **City of San José Tax-Exempt Multi-Family Housing Revenue Bonds (“City Bonds”) and Tax Credits**

On November 22, 2019, the Director of Finance held a Tax Equity and Fiscal Responsibility Act hearing regarding the issuance of tax-exempt multifamily housing revenue obligations in an amount not to exceed \$42,000,000 to finance the construction of the Development. The developer plans to apply for funding in the January 2020 State Tax credit and California Debt Limit Allocation Committee joint application funding Round. The developer will request an allocation of up to \$42,000,000 from the Committee and \$4,251,388 in state tax credits.

- **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. In December 2018, the Board of Supervisors appropriated \$15,650,000 in Measure A funds. Measure A will fund up to \$950 million in general obligation bonds that will create new affordable rental and homeowner housing opportunities.

To date, the County has committed \$282,780,000, in Measure A and No Place Like Home Funds, in 23 affordable housing developments in six cities. **Attachment C** has a complete listing of the affordable housing developments funded by the County.

ANALYSIS

The Alum Rock Family Housing development is an affordable housing development that will consist of 87 units and is being developed by the Affirmed Housing Group. The proposed development is located at the corner of Alum Rock Avenue and Foss Street in the Alum Rock neighborhood of East San José. The proposed development will provide supportive housing and housing for large families. The site will also include first floor commercial/retail, not financed with City funds. The proposed development will consist of 85 affordable apartments, comprised of 29 studios, 12 one-bedrooms, 22 two-bedrooms and 22 three-bedrooms and two manager’s units (a one-bedroom unit and a three-bedroom unit). Of the 85 affordable units, 43 of the units will be set-aside as supportive housing units, with 14 Rapid Rehousing and 29 Permanent Supportive Housing units.

Construction-Permanent Loan

The Housing Department recommends that City Council approve a Construction-Permanent Loan amount of up to \$9,350,000 from Low and Moderate Income Housing Asset Funds. The final permanent loan will also include funding from the construction period, and any interest that accrued. The amount of accrued interest from the construction period is estimated to be \$100,000 for a construction period of 24 months. The City’s loan will be structured consistent with its

underwriting guidelines and policies and are to be repaid through a share of the Development's net cash flow. Final loan terms will be underwritten, negotiated, and determined as the Development approaches construction loan closing. This will be a Santa Clara County owned property and will be evidenced by a Deed of Trust recorded against the leasehold interest. See **Attachment B** for a summary of the construction/permanent sources for the Development. 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 Development.

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 Development (at 1.20). 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 the Development's 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 development not proceed. This approval will enable the Development 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 is proposing to build the following unit and income mix.

UNIT SIZE	Extremely Low-Income UP TO 30% AMI		Very Low-Income UP TO 50% AMI		Low-Income UP TO 60% AMI		TOTAL
	Units	Max Income	Units	Max Income	Units	Max Income	
0 Bed	22	\$30,750	3	\$51,250	4	\$61,500	29
1 Bed	12	\$35,150	0	N/A	0	N/A	12
2 Bed	10	\$39,550	7	\$65,850	5	\$79,020	22
3 Bed	7	\$43,900	8	\$73,150	7	\$87,780	22
Managers Unit	N/A	N/A	N/A	N/A	N/A	N/A	2
Total	51		18		16		87

****Maximum incomes limits are based upon HCD occupancy guidelines of 1 person per bedroom, plus 1.**

Allowance for Rents to Increase in Case of Foreclosure

The affordability restriction will not be subordinated to the senior loan, so the restriction will allow an increase in the Development's rents and income up to 60% AMI (low income) for all tenants in the event of a foreclosure, to the extent the City has determined such increase is needed for feasibility of the Development.

Next Steps

If the developer is able to obtain all necessary funding commitments for the Development, they will apply for a Low-Income Housing Tax-Exempt Bond Allocation and State Tax Credit Round in January 2020. Construction is estimated to initiate by May 2020, and conclude in September 2021. *See Attachment D - Anticipated Development Timeline.*

CONCLUSION

Staff recommends the Alum Rock Family development for approval of a funding commitment of \$9,350,000 in Low and Moderate Income Housing funds to create 85 new affordable apartments in San José. This development will serve families and formally homeless households within our community in need of permanent housing.

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 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 Alum Rock Family Housing successfully closes construction financing, it would be included in these Production Reports. The Alum Rock Family Housing development is currently included in these reports as a predevelopment loan.

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more of Climate Smart San José energy, water, or mobility goals. The Alum Rock Family Housing Development will provide high density housing along a transit corridor.

POLICY ALTERNATIVES

The Housing Department considered the following alternative before making these recommendations for this affordable housing development.

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: The Alum Rock Family Housing Development is a viable opportunity to serve residents from a wide range of income levels, of whom may potentially include downtown workers.

PUBLIC OUTREACH

Affirmed Housing Group has partnered with PATH to implement a comprehensive outreach plan to engage with the community. Through a series of 10 outreach meetings held from March to May 2019, PATH provided information and answered questions with community members. The Developer structured the meetings to begin a community-based conversation with regards to the new developments' permanent supportive housing, architecture and design, potential

displacement of residents and businesses at the development site and in the Alum Rock Urban Village, and parking. Of the 10 meetings, the Developer created eight “listening sessions,” which were designed for the Developer to listen to the community and allow neighboring residents space to voice their feedback.

COORDINATION

Preparation of this report has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION

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

1. AMOUNT OF RECOMMENDATION: \$9,350,000
2. SOURCE OF FUNDING: Low and Moderate Income Housing Asset Fund (Fund 346).
3. FISCAL IMPACT: Funding in the amount of \$9,350,000 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 construction is initiated. There is no on-going fiscal impact as a result of this action.

December 18, 2019

Subject: Approval of a Loan Commitment for the Alum Rock Family Development

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BUDGET REFERENCE

The table below identifies the fund and appropriations proposed to fund the actions recommended as part of this memorandum.

Fund #	Appn #	Appn. Name	Total Appn	Rec. Budget Action	2019-2020 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
346	8437	Housing Project Reserve	\$84,000,000	(\$9,350,000)	X-56	10/22/2019, 30325
346	0070	Housing Loans and Grants	\$53,964,960	\$9,350,000	X-56	10/22/2019, 30325

CEQA

This Development qualifies for the streamlined approval process under Senate Bill No. 35 (Wiener, Planning and zoning: affordable housing: streamlining approval process), which exempts this Development from CEQA review.

/s/

JACKY MORALES-FERRAND
Director, Housing Department

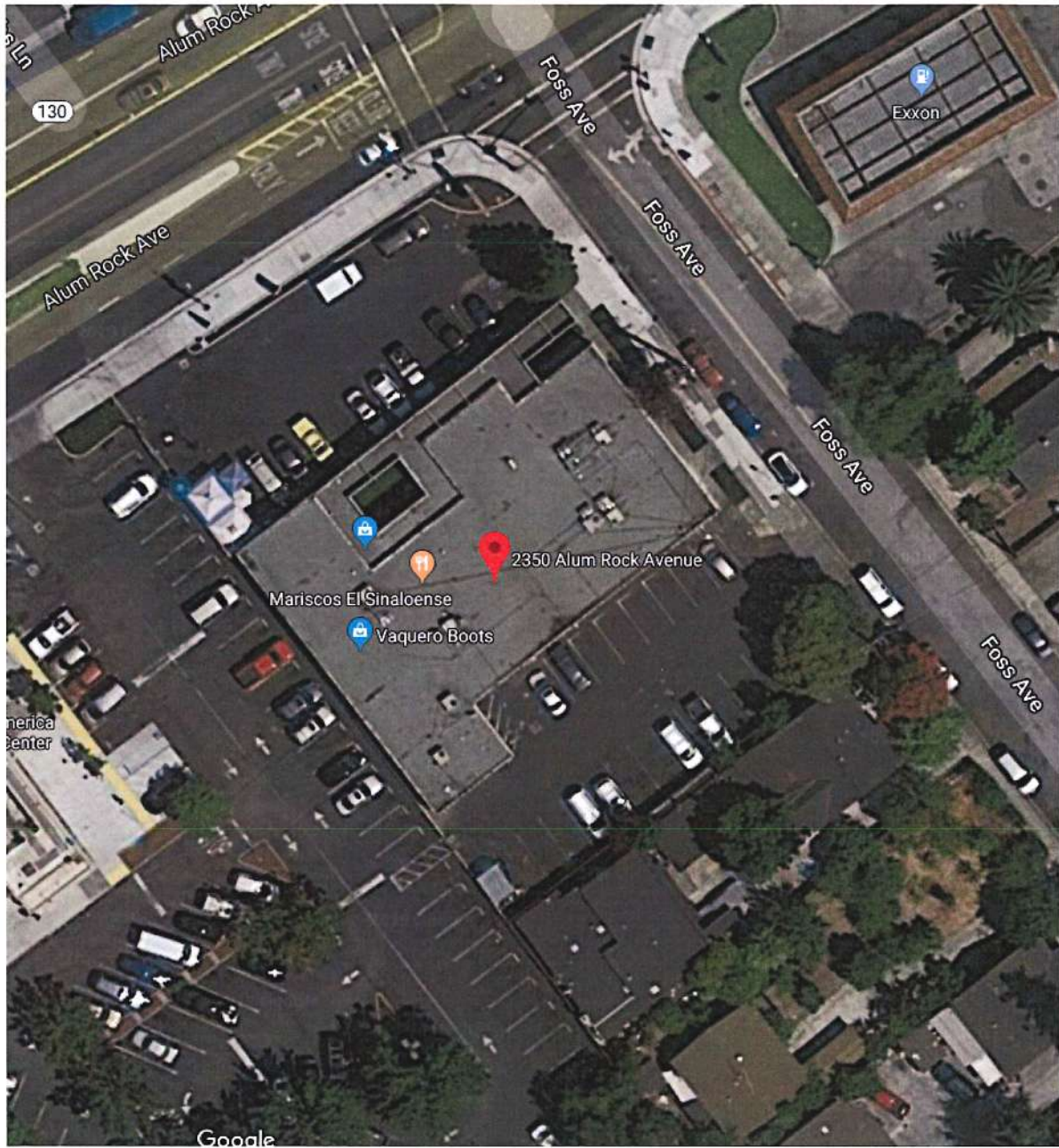


JIM SHANNON
Budget Director

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

Attachment A:	Development Overview and Site Map
Attachment B:	Construction/Permanent Sources for the Development
Attachment C:	County of Santa Clara – Measure A and No Place Like Home Funding
Attachment D:	Anticipated Development Timeline

ATTACHMENT A
SITE MAP



ATTACHMENT B

ALUM ROCK FAMILY HOUSING

CONSTRUCTION SOURCES

SOURCE	AMOUNT
Tax Exempt Perm Bond/Construction Lender	\$38,381,156
City of San José	\$8,415,000
County of Santa Clara	\$8,590,400
Total Sources	\$55,386,556

PERMANENT SOURCES

SOURCE	AMOUNT
Tax Exempt Perm Bond	\$5,575,000
City of San José	\$8,415,000
• Accrued/Deferred Interest (CSJ)	\$935,000
County of Santa Clara	\$15,650,000
Deferred Developer Fee	\$260,000
General Partner	\$740,000
Limited Partners	\$23,811,556
Total Sources	\$55,386,556

ATTACHMENT C

COUNTY OF SANTA CLARA – MEASURE A AND NO PLACE LIKE HOME FUNDING

Housing Development	City	Total # of Units	Supportive Housing	County Investment
The Veranda	Cupertino	19	6	\$1,000,000
Villas on the Park	San Jose	84	83	\$7,200,000
Crossings on Monterey	Morgan Hill	39	20	\$5,800,000
Gateway Senior Apartments	Gilroy	75	37	\$7,500,000
Leigh Avenue Senior Apartments	San Jose	64	63	\$13,500,000
Evans Lane Community Village	San Jose	61	30	\$12,000,000
North San Pedro Apartments	San Jose	135	109	\$7,200,000
Page Street Apartments	San Jose	82	27	\$14,000,000
Quetzal Gardens	San Jose	71	28	\$9,830,000
Corvin Apartments	Santa Clara	145	80	\$29,000,000
Blossom Hill Development	San Jose	147	49	\$19,100,000
Alum Rock Family Housing	San Jose	87	43	\$15,650,000
West San Carlos Apartments	San Jose	80	40	\$9,300,000
Sango Court Apartments	Milpitas	102	40	\$16,000,000
Gallup & Mesa	San Jose	46	23	\$2,400,000
Agrihood Sr. Apartments	Santa Clara	165	54	\$23,550,000
Auzerais	San Jose	130	64	\$13,200,000
Roosevelt Park	San Jose	80	40	\$14,400,000
Markham I	San Jose	153	40	\$7,000,000
Markham II	San Jose	152	50	\$7,200,000
Curtner Studios	San Jose	179	111	\$14,950,000
Gallup Mesa	San Jose	46	23	\$7,000,000
425 Azerais	San Jose	130	64	\$26,000,00
TOTAL UNITS		2,272	1,124	\$256,780,000

ATTACHMENT D

Alum Rock Family Housing Anticipated Development Timeline

Apply for CDLAC/TCAC	January 2020
Bond Allocation Award	March 2020
Submit Construction Drawings for Building Permits	January 2020
Close Financing	May 2020
Start Construction	May 2020
Complete Construction	September 2021