



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Jim Shannon

SUBJECT: SEE BELOW

DATE: September 1, 2020

Approved

Date

9/3/2020

COUNCIL DISTRICT: 6

SUBJECT: APPROVAL OF A LOAN COMMITMENT TO MP MOORPARK ASSOCIATES, L.P., FOR THE DEVELOPMENT OF 1710 MOORPARK DEVELOPMENT, A NEW AFFORDABLE APARTMENT COMMUNITY

RECOMMENDATION

- (a) Adopt a resolution:
- (1) Approving a total commitment of up to \$10,971,000 in Low and Moderate Income Housing Asset Funds (“LMIHAF”) for a Construction-Permanent Loan to MidPen Housing Corporation, or an affiliated development entity (“Developer”), for the 1710 Moorpark development, located at 1710 Moorpark (“Site”), which is being developed to offer 106 affordable, rent-restricted apartments, and two unrestricted manager’s homes (“Development”);
 - (2) Authorizing the Director of Housing to negotiate and execute loan documents and all other documents, including any amendments thereto, related to City financing for 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 Appropriation Ordinance amendments in the Low and Moderate Income Housing Asset Fund:
- (1) Decrease the Housing Development Reserve appropriation by \$10,971,000; and
 - (2) Increase the Housing Loans and Grants appropriation to the Housing Department by \$10,971,000.

OUTCOME

Approval of the recommended actions will enable the Developer to assemble financing to build a new affordable development at the site located at 1710 Moorpark Avenue (*See Attachment A Site Map*). The 1710 Moorpark development will provide 106 affordable apartments, with 53 Extremely Low Income (ELI) apartments, 53 Very Low Income (VLI) apartments, and two unrestricted manager's apartments, for a total of 108 households in San José. All 106 apartments will be supportive housing apartments. As funding sources are secured, the planned start date for construction to begin is May 2021.

EXECUTIVE SUMMARY

In response to the \$100 million Notice of Funding Availability last year, MidPen Housing Corporation applied for a funding commitment in the amount of \$10,971,000 to develop 108 apartments for extremely low and very low-income individuals. This development plans to utilize funds from the City's Low and Moderate Income Housing Asset fund, County of Santa Clara (County) Measure A, and Tax-Exempt Multi-Family Housing Revenue Bonds. 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. 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 \$10,971,000 to provide 106 affordable apartments, all of which will be set aside for permanent supportive housing for formerly homeless individuals and families. All of the supportive apartments will have Project Based Vouchers from the Housing Authority of Santa Clara County Housing. Of the 106 supportive apartments, 53 will be studios, available for formerly homeless individuals earning 30% of the area median income (AMI) or less. The remaining 53 apartments will be also be studios, available to formerly homeless individuals earning 50% of the AMI. The Development will receive supportive service from the County, and on-site service coordination from MidPen Resident Services Corporation. The guidelines stated that the City would allocate funding at \$125,000 per unit, and 1710 Moorpark Development was awarded \$101,583 per unit or \$10,971,000. (*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 1710 Moorpark Development, including:

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

The developer plans to apply for funding in the September 2020 State Tax credit and California Debt Limit Allocation Committee joint application funding Round. The developer will request an allocation of up to \$38,366,898 from the Committee.

- **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 Santa Clara County Board of Supervisors appropriated \$16,654,646 in Measure A funds for the development in March 2020.

- **Federal Home Loan Bank (FHLBank), Affordable Housing Program (AHP)**

The FHL Bank’s Affordable Housing Program (AHP) is designed to address local housing needs and is administered regionally by member FHL Banks. The Developer was awarded an allocation of approximately \$1,060,000 in funding from the AHP program on June 2020.

- **John A. and Susan Sobrato Donor Advised Fund at the Silicon Valley Community Foundation (SVCF)**

This foundation is designed to address local housing challenges to ensure that low- and middle-income residents can live and work in the region. The Developer was awarded an acquisition grant in the amount of \$2,610,000 on February 2020.

ANALYSIS

Developed by MidPen Housing Corporation, the 1710 Moorpark Development is located at the 1710 Moorpark Avenue, San José. This proposed affordable housing development will consist of 108 affordable apartments, comprised of all studios and two manager’s apartments. All 106 affordable apartments will be set-aside as permanent supportive housing apartments.

In early 2018, Immanuel Evangelical Lutheran Church (Church) of San José approached MidPen Housing (MidPen) about a potential partnership with the congregation to build an affordable housing development on a portion of their underutilized campus with the stated goal of revitalizing the physical condition of the property and reinvigorating the spiritual mission of the Church and its community service efforts. What evolved from the conversations with Church is the 1710 Moorpark development, which will redevelop the northern portion of the Church campus located at 1710 Moorpark Avenue in San José. The site is directly across Leigh Avenue from San José City College’s campus and less than a ½ mile walk from the Santa Clara Valley

Medical Center. With this proposed development, both MidPen and Church desire to address the housing crisis and meet the immense need for housing or the homeless in San José. Partnerships with faith-based communities will continue to be an additional opportunity for ending homelessness in the City of San José.

With the exception of the Church sanctuary and chapel, all other structures will be removed on the northern portion of the parcel to build the new residential development. MidPen will construct a new 5-story building with 108 homes (106 studios and 2 two-bedroom manager's unit). Direct case management services will be provided for by the County through an approved County-contracted service provider and will be supplemented by additional on-site coordination and support services from MidPen Resident Services Corporation. The ground floor will consist of a parking podium with 37 parking spaces, a main entry lobby controlled by 24-hour security access, and approximately 2,000 SF of private community serving space leased back to and programmed by Church. The main residential amenity areas will be on the second floor and will include a community room with kitchen, computer lab, fitness room, offices for property management and services, a laundry facility, a private residents-only outdoor recreation area above the podium. County contracted service providers will have offices and conference rooms available for use on-site.

Construction-Permanent Loan

The Housing Department recommends that City Council approve a Construction-Permanent Loan amount of up to \$10,971,000 from LMIHAF. 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. The property will be owned by Immanuel Evangelical Lutheran Church and leased to the developer for construction and operation of the development and other improvements. The City construction-permanent loan 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

The City's Loan to Value ("LTV") policy requires that the LTV ratio not exceed 100% in order to mitigate the City's risk of potential loss associated with a loan. To determine an estimated LTV ratio for the City's Construction-Permanent Loan, the Housing Department will obtain an appraisal before construction closing. In the event that securing the Construction-Permanent Loan on the Site results in an LTV ratio that exceeds the City's LTV policy threshold, the Housing Department recommends approval of an LTV ratio for the Development that is greater than 100%.

Affordability Unit Mix/Area Median Income Levels

The Developer has proposed the following unit mix: 53 apartments restricted to Extremely Low Income households at 30% of AMI, 53 restricted to Very Low Income households at 50% of AMI, for a total of 106 restricted homes, and two unrestricted manager’s homes. The breakdown of affordability level and bedroom size is included in Table 1 below. These affordability requirements shall be evidenced by a 55-year affordability restriction recorded against the Developer’s leasehold interest in the property per Community Redevelopment Law requirements for projects receiving LMIHAF funds.

Table 1 – Affordability Restriction and Bedroom Breakdown

UNIT SIZE	UP TO 30% AMI		UP TO 50% AMI		TOTAL
	Apartments	Max Income	Apartments	Max Income	
Studio	53	\$37,900	53	\$63,200	106
Managers Unit	N/A	N/A	N/A	N/A	2
Total	53		53		108

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

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 in September of 2020. Construction is estimated to initiate by May of 2021 and conclude in December 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 1710 Moorpark Development successfully closes construction financing, it would be included in these Quarterly Production Reports. The 1710 Moorpark Development is currently included in these reports as a predevelopment loan.

CLIMATE SMART SAN JOSÉ

The recommendation in this memo aligns with one or more of Climate Smart San José energy, water, or mobility goals.

The project is committed to environmental sustainability and energy conservation. It will be an all-electric building with no natural gas service. By avoiding natural gas or fossil fuels, this building will have a smaller carbon footprint. Other features include GreenPoint Rated Gold certification, solar photovoltaic panels on the roof to offset electric use and exteriors will have LED lighting. Corridors will have glazing to maximize natural light and minimize energy use and all appliances will be Energy Star. The landscaping will consist of native and drought resistant plants and trees with low water use. For transportation, there will a locked bicycle storage with only half mile to Fruitdale VTA Station.

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 1710 Moorpark Development is a viable opportunity to serve residents from a wide range of income levels, of whom may potentially include downtown workers.

PUBLIC OUTREACH

MidPen Housing Corporation has partnered with Immanuel Evangelical Lutheran Church of San José, to implement a comprehensive outreach plan to engage with the community. MidPen Housing Corporation and Immanuel Evangelical Lutheran Church of San José has held two outreach meetings, provided information and answered questions, on June of 2019 and June of 2020. Specifically, the Developer has structured the meetings to begin a community-based conversation with regards to the new developments' permanent supportive housing, architecture and design.

COORDINATION

Preparation of this report has been coordinated with the City Attorney'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

1. ESTIMATED COSTS:

USES	AMOUNT
Construction Loan	<u>\$10,971,000</u>
Estimated cost	\$10,971,000
TOTAL "UP TO" PERMANENT LOAN AMOUNT	\$10,971,000

2. SOURCE OF FUNDING: Low and Moderate Income Housing Asset Fund (346).
3. FISCAL IMPACT: Funding in the amount of \$10,971,000 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.

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	2020-2021 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
346	8437	Housing Project Reserve	\$70,000,000	(\$10,971,000)	IX-56	06/23/2020 Ord. No. 30437
346	0070	Housing Loans and Grants	\$48,339,960	\$10,971,000	IX-56	06/23/2020 Ord. No. 30437


*The 2020-2021 Proposed Operating Budget was adopted by the City Council on June 23, 2020.

CEQA

Not a Project, PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment. The project is exempt from CEQA per Public Resources Code Section 21080(b)(1) and CEQA Guidelines Section 15369, Ministerial Project pursuant to Government Code Section 65913.4, File No. ER20-109.

/s/

JACKY MORALES-FERRAND
Director, Housing Department

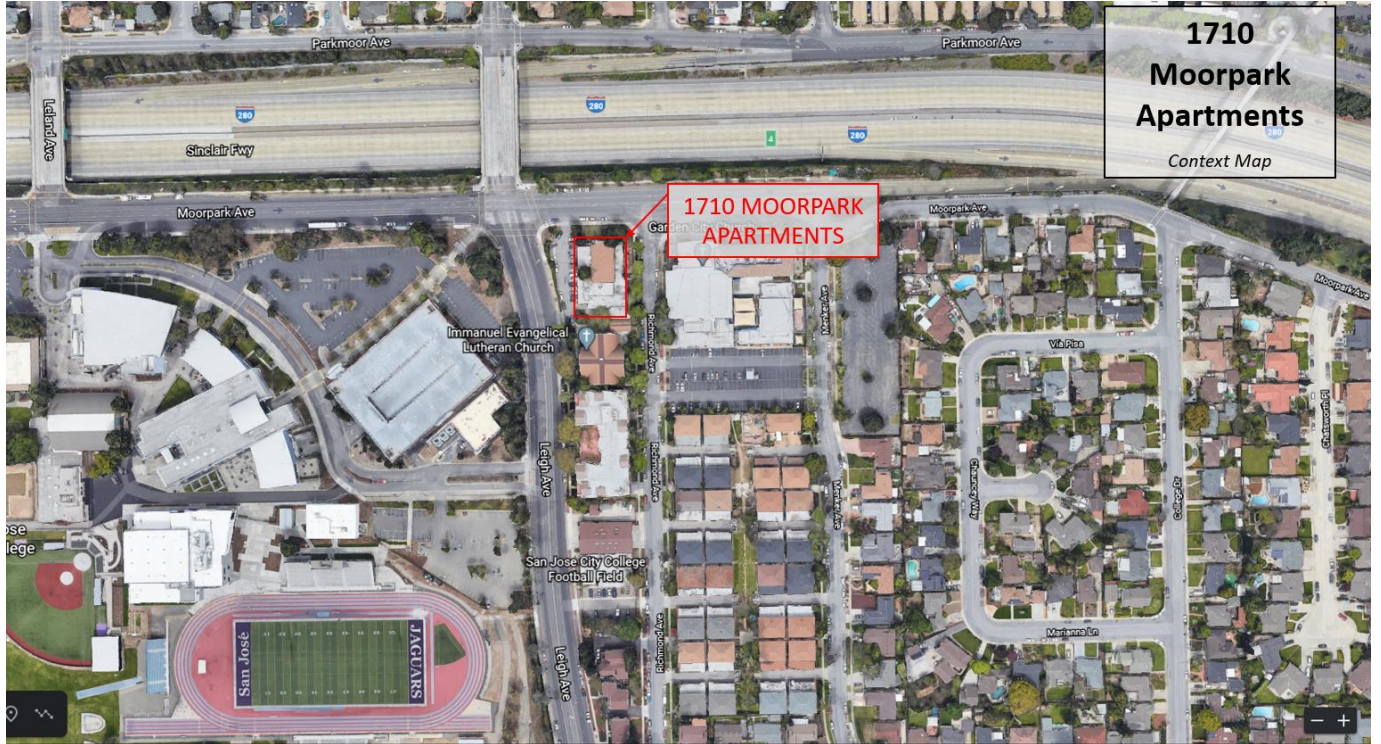


JIM SHANNON
Budget Director

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

- Attachment A: Site Map
- Attachment B: Construction Sources
- Attachment C: Anticipated Development Timeline

**ATTACHMENT A
SITE MAP**



**ATTACHMENT B
1710 MOORPARK DEVELOPMENT**

CONSTRUCTION SOURCES

SOURCE	AMOUNT
Tax Exempt Perm Bond/Construction Lender	\$40,015,035
City of San José	\$10,971,000
County of Santa Clara	\$13,314,646
Affordable Housing Program - FHLP SF Federal Home Loan Bank of San Francisco	\$1,060,000
John A. and Susan Sobrato Donor Grant	\$2,610,000
Tax Credit Equity	\$2,625,365
GP Equity	\$100
GP Equity Developer Fee	\$3,373,349
Deferred Developer Fee	\$2,631,333
Total Sources	\$76,600,828

PERMANENT SOURCES

SOURCE	AMOUNT
Tax Exempt Perm Bond	\$17,185,000
City of San José	\$10,971,000
County of Santa Clara	\$16,654,646
Affordable Housing Program - FHLP SF Federal Home Loan Bank of San Francisco	\$1,060,000
John A. and Susan Sobrato Donor Grant	\$2,610,000
Tax Credit Investor Proceeds (4%)	\$26,253,653
GP Equity	\$100
GP Equity Developer Fee	\$3,373,349
Deferred Developer Fee	\$2,631,333
Total Sources	\$80,739,081

ATTACHMENT C

1710 Moorpark Development Anticipated Development Timeline

Apply for CDLAC/TCAC	September 2020
Bond Allocation Award	December 2020
Submit Construction Drawings for Building Permits	September 2020
Close Financing	May 2021
Start Construction	May 2021
Complete Construction	December 2022