



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Julia H. Cooper

SUBJECT: SEE BELOW

DATE: January 22, 2021

Approved D. DSYL

Date

1/22/2021

COUNCIL DISTRICT: 3, 6

SUBJECT: APPROVAL OF AN EXCEPTION TO THE CITY MULTIFAMILY HOUSING REVENUE BOND POLICY ALLOWING THE AUZERAIS AFFORDABLE HOUSING DEVELOPMENT AND MERIDIAN AVENUE AFFORDABLE HOUSING DEVELOPMENT TO USE AN EXTERNAL BOND ISSUER

RECOMMENDATION

Adopt a resolution authorizing an exception to the City's Policy for the issuance of Multifamily Housing Revenue Bonds for the Auzerais Apartments project and for Meridian Avenue Affordable Housing Development project, thereby allowing issuance for those projects by the California Municipal Finance Authority (CMFA) and California Statewide Communities Development Authority (CSCDA) respectively.

OUTCOME

Approval of the recommended actions will enable the Auzerais Apartments project and the Meridian Avenue Affordable Housing Development to move forward with outside bond issuers and submit applications to the California Debt Limit Allocation Committee on February 4, 2021.

BACKGROUND

San José lacks enough affordable housing to meet residents' needs, with a severe shortage of adequate, affordable housing for extremely low-, very low-, low-income, and moderate-income households. The Mayor and City Council have responded to this need for affordable housing by setting a goal of building 25,000 new housing units by 2023, of which 10,000 are affordable.

Staff continues to work to find solutions for affordable housing development to move forward to meet the needs of our community.

The adopted a policy for the Issuance of Multifamily Housing Revenue Bonds in 2002 stating the parameters for when the City will serve as the bond issuer for affordable housing developments. Due to special circumstances, staff is recommending an exception to this policy for two affordable housing developments. This creative approach will result in the development of over 360 new affordable apartments to our community.

ANALYSIS

The City's Policy for the Issuance of Multifamily Housing Revenue Bonds (City Policy 1-16) states that the City shall be the issuer of all bonds financing multifamily housing rental projects within the City, with specified exceptions. One of these exceptions allows an outside issuer to issue bonds for affordable housing within the City when there are "special circumstances" merited by the circumstances of the project and the financing. In the case that the City is not the issuer of bonds for the project, it is the City's policy to require the issuer to assume full responsibility for issuance and ongoing compliance of the bond issue with federal tax and state laws. The City will, however, hold The Equity and Fiscal Responsibility Act of 1986 Hearing (TEFRA hearing).

Auzerais Affordable Housing Development

The 425 Auzerais Apartments will create 130 new affordable apartments in the Diridon Station Area. The development is located a half mile from the Diridon Station at the corner of Auzerais Avenue and Delmas Avenue. Funding secured from outside partners include \$13.2 million in Measure A funds from Santa Clara County, \$5.5 million in Infill Infrastructure Grant funds from the state, and 64 project-based vouchers from the Santa Clara County Housing Authority. Half of the apartments (64) will be permanent supportive housing (PSH) providing a safe and affordable home for our unhoused residents. Those apartments will be supported by Section 8 project-based vouchers as well as an operating subsidy to cover the cost of providing supportive services. The remaining apartments will be restricted to households earning 50–60% of the Area Median Income (AMI).

Unit Type	PSH/30% AMI	50% AMI	60% AMI	Manager	Total
Studio	58	28	-	-	86
One-bedroom	2	5	9	-	16
Two-bedroom	4	10	12	2	28
Total	64	43	21	2	130

Meridian Avenue Affordable Housing Development

The Meridian Avenue Affordable development provides 233 rental homes in the Willow Glen neighborhood developed by ROEM Development Corporation (ROEM). This development will have a mix of one-, two-, and three-bedroom apartments meeting the needs of both small and large families. The resident population will be a blend of supportive housing for homeless veterans (35 apartments) and families with incomes with a range of incomes from 30% AMI to 80% AMI. The development will be supported by 73 project-based vouchers from the Santa Clara County Housing Authority.

Unit Type	30% AMI	40% AMI	50% AMI	60% AMI	80% AMI	Manager	Total
One-bedroom	10	20	26	0	32	-	67
Two-bedroom	0	-	15	10	55	-	90
Three-bedroom	38	-	-	0	27	2	76
Total	48	20	41	10	112	2	233

Basis for Multifamily Housing Revenue Bonds Policy Exception

The Auzerais Avenue Apartments proposed housing development came together after the 2018 Notice of Funding Availability opened and closed, missing the opportunity to apply for City funding. Since that time, Eden Housing was able to secure financing from outside sources. The Meridian Avenue Affordable Housing Development applied to the City's Notice of Funding Availability and just recently secured funding sources for the development, allowing the development to move forward without the City's funding commitment. All sources are in place for both developments and they are ready to apply for bond allocations from the California Debt Limit Allocation Committee ("CDLAC") on February 4, 2021. Due to the timing of the upcoming financing round, the City does not currently have capacity to prepare for the issuance of bonds for the February application. The City received allocations for three projects in December, so the City is currently working to bring to Council the authorization to issue bonds for three affordable housing developments, which are recipients of City funding through the 2018 Notice of Funding Availability, and to prepare the two additional projects with City funding commitments for the February 4 CDLAC application, causing a strain on staff resources to support additional bond issuances.

The Auzerais Avenue Apartments and Meridian Avenue Affordable Housing developments do not have City loans, therefore, consistent with the City's Multifamily Housing Revenue Bond Policy, special circumstances related to the financing of the development arose and staff is recommending an exception to the policy allowing both of these developments to move forward with an outside bond issuer.

The City will hold the TEFRA hearings at City Council as part of the bond issuance process. The issuer proposed by Eden for Auzerais is California Municipal Finance Authority (CMFA), a joint powers authority which the City is a member. The issuer proposed by ROEM for Meridian

is California Statewide Communities Development Authority (CSCDA), a joint powers authority which the City is a member.

These two affordable housing developments have indicated that it is vital that they are able to apply on February 4 rather than the next application deadline in May due to three reasons:

- 1) Current extremely competitive nature the CDLAC tax-exempt bond allocation process;
- 2) Current limited capacity of City staff; and
- 3) San José is facing an affordable housing crisis exacerbated by the COVID-19 pandemic and these developments have stated they are ready to move forward and will be able to begin construction sooner if they move forward in the February 4th CDLAC round.

The current demand for CDLAC tax exempt bond allocations is exceeding the availability of allocations for awards. These developments want to compete in the February round to increase their chances for an award. Second, Housing Department staff capacity is not available to support the issuance of the bonds at this time. Finally, San José continues to face an affordable housing crisis, exacerbated by the COVID-19 pandemic. These proposed developments will bring over 360 new affordable homes to our community. All funding is in place to move forward quickly, and the City does not have any loans in either project, allowing the construction of this much needed housing to move forward in an expedited manner.

CONCLUSION

Considering the timing of this application deadline and potential award and bond issuance, staff does not have the capacity to complete the steps necessary to take these projects to a February allocation and potentially issue these bonds at this time. Staff is working on other multifamily bond issuances that have a City commitment throughout 2020-2021 which will provide revenue to the City. While the City would expect to serve as issuer if it were a lender in these projects, as there are no City loans, staff is comfortable recommending this exception to the policy.

EVALUATION AND FOLLOW-UP

The Housing Department posts periodic reports on the status of affordable properties undergoing rehabilitation or construction to its website, www.sjhousing.org. If the recommended actions are approved, progress of these developments will be included in these periodic Production Reports.

CLIMATE SMART SAN JOSE

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

PUBLIC OUTREACH

This memo will be posted on the City's website for the February 2, 2021 City Council meeting.

COORDINATION

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

Approving this recommendation will result in the City's receipt of a \$5,000 fee for holding a TEFRA for each bond issuance, but will result in forgoing bond administration fees for these two transactions. The fee resolution outlines the parameters for the Issuance Fee, an amount equal to the sum of (a) 0.50% of the first \$10,000,000 issued and (b) 0.25% of the remaining par issued. The annual fee applicable to developers is an amount equal to 0.125% of the permanent loan amount at conversion, subject to a minimum fee of \$7,500, for the 55-year term of the regulatory period. Based on these parameters, the City will forgo approximately \$900,000 in issuance fees and \$15,000 annually. These fees would only be collected, however, if staffing capacity existed to provide support to issue these bonds.

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CEQA

425 Auzerais Apartments project is exempt from CEQA review 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; and Environmental Impact Report for the Meridian Apartments Project, File No. SP19-064.

/s/

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/s/

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