



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: February 11, 2021

Approved

Date

02/12/21

COUNCIL DISTRICT: 3

**SUBJECT: AUTHORIZATION TO ACCEPT AFFORDABLE HOUSING AND
SUSTAINABLE COMMUNITIES ROUND 4 LOAN AND GRANT FOR THE
BALBACH SITE AND THE ASSOCIATED TRANSPORTATION-RELATED
CAPITAL IMPROVEMENTS AND TO ACCEPT THE INFILL
INFRASTRUCTURE GRANT**

RECOMMENDATION

(a) Adopt a resolution:

- (1) Authorizing the City Manager or his designee to accept the grant of the California Strategic Growth Council ("SGC") and/or California Department of Housing and Community Development ("HCD") of \$18,908,818, awarded under Round 4 of the Affordable Housing and Sustainable Communities ("AHSC") program for the Balbach Site ("Arya"); and
- (2) Authorizing the City Manager or his designee to accept the grant of \$3,577,755, awarded by HCD under the Infill Infrastructure Grant Program ("IIG") previously authorized by Council for new construction capital improvement projects in support of Qualifying Infill Projects or Qualifying Infill Areas, negotiate, enter into, execute and deliver the Standard Agreement for the grant in connection with Arya project, and all other documents required or deemed necessary or appropriate to comply with IIG grant and program requirements.

OUTCOME

City Council adoption of the resolution will authorize the City to work with Satellite Affordable Housing Associates ("SAHA") to accept the IIG grant and AHSC loan and grant. The IIG and

HONORABLE MAYOR AND CITY COUNCIL

Subject: Authorization to Accept Affordable Housing and Sustainable Communities Round 4 Loan and Grant for the Balbach Site and the Associated Transportation-Related Capital Improvements and to Accept the Infill Infrastructure Grant

February 11, 2021

Page 2 of 12

AHSC funding source will help fund the design and construction of affordable housing, sustainable transportation infrastructure and land preservation to support infill and compact development that reduce greenhouse gas emissions.

EXECUTIVE SUMMARY

The recommendations within this memorandum address the financial resources necessary and provide authority for the City Manager to enter into agreements with the State of California's Housing and Community Development's ("HCD") for acceptance of the Affordable Housing and Sustainable Communities loan and grant and Infill Grant awarded to Arya (formerly referred to as 226 Balbach Avenue).

The grant and the low-interest permanent loan will provide the City's joint applicant, SAHA, with resources to complete the development. Execution of the Grant Agreement and other necessary documents must be completed in time so that the housing project can close financing and proceed.

BACKGROUND

Affordable Housing and Sustainable Communities Loan and Grant Secured

The Affordable Housing and Sustainable Communities or "Cap and Trade" program was established with a passage of Senate Bill 182 to implement Assembly Bill 32; the California Global Warming Solutions Act 2006. The purpose of the AHSC Program is to reduce Greenhouse Gas emissions through coordinated projects that implement land-use, housing, transportation, and urban greening or land preservation practices supporting infill and compact development near transit. Projects awarded funding through this highly competitive grant program, are only the most viable and impactful statewide and must support a broad array of coordinated public policy objectives.

On November 1, 2018, the State of California, Strategic Growth Council ("SGC") and Department of Housing and Community Development ("HCD"), issued a Notice of Funding Availability ("NOFA"), under the Affordable Housing and Sustainable Communities ("AHSC") Program established under Division 44, Part 1 of the Public Resources Code, commencing with Section 75200.

On February 11, 2019, the Housing Department and the Department of Transportation submitted a joint application with the developer for AHSC funds in response to the AHSC NOFA for an amount of up to \$20,000,000 under Round 4 of AHSC program to provide funding for (a) Construction and development of an affordable housing project at the development site, and; (b) sustainable transportation infrastructure ("STI") and transportation-related amenities ("TRA")

HONORABLE MAYOR AND CITY COUNCIL

Subject: Authorization to Accept Affordable Housing and Sustainable Communities Round 4 Loan and Grant for the Balbach Site and the Associated Transportation-Related Capital Improvements and to Accept the Infill Infrastructure Grant

February 11, 2021

Page 3 of 12

(the “Infrastructure Development”); and (c) the provision of program grant costs (“PGM”) (the “Transit Program”) *See Table 2 below for proposed details.*

On July 8, 2019, The Department of Housing and Community Development (“HCD”) and the Strategic Growth Council (“SGC”) awarded Satellite Affordable Housing Associates (“SAHA”) and the City of San José an AHSC program award in the amount of \$18,908,818. The award constituted of an AHSC Loan of \$12,777,880 for housing funding and an AHSC grant of \$6,130,938 for infrastructure and transit development. *See Table 1 below.*

Table 1: AHSC Award Components and Greenhouse Gas Reductions

TOTAL AWARD AMOUNT:	\$18,908,818
Affordable Housing Development:	\$12,777,880
Transportation Related Infrastructure:	\$5,970,438
Program Costs:	\$160,500
TOTAL PROJECT COST:	\$65,150,772
TOTAL CONSTRUCTION COST:	\$36,945,788
GREENHOUSE GAS REDUCTIONS	37,502 Metric Tons
Or the equivalent of:	
Reducing nearly 89.8 million vehicle miles traveled	
Taking 7,915 cars off the road for one year	

Table 2: Additional Benefits from Proposed Improvements

<u>ECONOMIC</u>	Improving access to employment
	Increasing foot traffic by improving bike and pedestrian connectivity
<u>PUBLIC HEALTH AND SAFETY</u>	Increasing access to active modes of transportation such as walking and biking
<u>NEW AMENITIES</u>	
Safe and Accessible Walkways	> 3,000 feet
Crosswalks	4
Bikeways	1.71 miles
Transit Vehicles	2 electric buses
Transit Routes	1
Transit Passes	270
Car Parking Spaces	40 (Parking Ratio: 40:87) (Spaces/unit)
Bicycle Parking Spaces	49 spaces/unit

HONORABLE MAYOR AND CITY COUNCIL

Subject: Authorization to Accept Affordable Housing and Sustainable Communities Round 4 Loan and Grant for the Balbach Site and the Associated Transportation-Related Capital Improvements and to Accept the Infill Infrastructure Grant

February 11, 2021

Page 4 of 12

Infill Infrastructure Grant Secured

The Infill Infrastructure Grant Program is a competitive grant program that awards funding between \$500,000 and \$5million. By providing financial assistance, the grant program supports infrastructure improvements to facilitate new infill housing development. The grant program serves to aid in new construction and rehabilitation of infrastructure that supports higher-density affordable housing in locations designated as infill. The program seeks to accomplish this objective by providing financial assistance for infrastructure improvements necessary to facilitate new infill housing developments.

On February 18, 2020, SAHA, along with the City of San José as a co-applicant, applied for funding from the State of California's Department of Housing and Community Development's Infill Infrastructure Grant Program. The application proposed the construction of an affordable housing development, site and environmental improvements. On June 23, 2020, the program awarded the development an Infill Infrastructure Grant Program of 2019 Large Jurisdiction award in the amount of \$3,577,755.

ANALYSIS

The Arya is the result of over eleven years of collaboration and engagement in the Market-Almaden neighborhood, which brought together multiple departments at the City, City Council, the VTA, SAHA and a Community Advisory Group, all working with the greater community to envision the Project. SAHA and the City collaborated to successfully secure an AHSC loan and grant, as well as an IIG grant, combined providing \$22,486,573 million to the Arya development. located at the Southeast corner of Balbach Street and South Almaden Boulevard, at 500 Almaden Boulevard (formerly 226 Balbach Street), in downtown San Jose. The property is 16,014 square feet and is a parking lot.

(Let's add a location reference here)

The AHSC loan and grant will support 86 units of affordable housing in downtown San José, which would include artist studios, a community room, and gallery space on the ground floor. The transportation components are concentrated on key bike and pedestrian gap closures, including a protected bikeway that would connect the Convention Center to the neighborhoods to the south. Urban greening improvements would be added to a proposed active transportation corridor, in addition to sidewalk improvements and protected bikeways, which directly connects to transit and other amenities. The involvement of the Office of Cultural Affairs and other partners, as well as localized community engagement conducted by the developer ensures that this development would meet the needs of both residents and the broader community.

Totaling \$18,908,818 for the AHSC revenues are awarded as grant funds for public infrastructure and low interest permanent loan (which is subordinate to City financing) for the

HONORABLE MAYOR AND CITY COUNCIL

Subject: Authorization to Accept Affordable Housing and Sustainable Communities Round 4 Loan and Grant for the Balbach Site and the Associated Transportation-Related Capital Improvements and to Accept the Infill Infrastructure Grant

February 11, 2021

Page 5 of 12

affordable housing development. The funds awarded are summarized in Table 3 immediately below.

Table 3: Summary of AHSC Awarded Funds

<u>Recipient</u>	<u>Capital Project</u>	<u>AHSC Funds</u>	<u>Type</u>
Satellite Affordable Housing Associates ("SAHA")	500 Almaden Blvd Apartments	\$12,777,880	Loan
City of San José	Sustainable Transportation Infrastructure (STI)	\$4,995,262	Grant
City of San José	Transportation-Related Amenities (TRA)	\$975,176	Grant
Satellite Affordable Housing Associates ("SAHA")	Program Costs (PGM)	\$160,500	Grant
	Grand Total	\$18,908,818	

The AHSC loan will be directly disbursed to the sponsor, however the AHSC grant funds will be disbursed as reimbursement progress payments that will be set forth in the Disbursement Agreement. These reimbursement payments will be made based on progress milestones outlined in the standard agreement. The milestones that have expired will be addressed as the SGC will propose amendments to the Rounds 3, 4, and 5 AHSC guidelines to extend project delivery milestones by one year. (*See Attachment A*)

State Infill Grant

The IIG grant award will provide \$3,577,755 funded by the Infill Infrastructure Grant Program of 2019 through the California Department of Housing and Community Development. The award's scope of work consists of the development and construction of the 87-unit new construction project as well as Capital Improvement Project ("CIP") work which includes site preparation, site utilities, surface improvement, landscape, sewer, storm water treatment, bicycle facilities, and environmental remediation. The IIG grant will be disbursed as progress payments outlined in a Disbursement Agreement to Satellite Affordable Housing Associates upon completion of specific milestones and the CIP work. The developer will request an extension from HCD on the milestones that are delayed. (*See Attachment B*)

CONCLUSION

Staff recommends acceptance of the **\$22,486,573** in AHSC and the IIG program funding which exceeds the City's investment of **\$20,149,106**. This provides the Arya with the funds necessary

HONORABLE MAYOR AND CITY COUNCIL

Subject: Authorization to Accept Affordable Housing and Sustainable Communities Round 4 Loan and Grant for the Balbach Site and the Associated Transportation-Related Capital Improvements and to Accept the Infill Infrastructure Grant

February 11, 2021

Page 6 of 12

to create 86 new affordable apartments and improvements such as urban greening, bike and pedestrian pathways and electric buses to reduce greenhouse gas emissions and benefit the citizens of San José. These grants not only bring much needed affordable housing to our community, but also provide improvements to our local neighborhoods.

EVALUATION AND FOLLOW-UP

Upon appropriation of the AHSC loan and grant and IIG, Housing and Transportation will work with the developer, the City Manager's Office, and the City Attorney's Office to prepare and execute all required documents and agreements necessary. A joint AHSC indemnification agreement and a developer/sponsor IIG indemnification agreement that includes a schedule of deliverables with assigned responsibilities and milestones will be executed.

The IIG agreement is through June 30, 2028 and as a source of funding for construction, the loan must be funded by June 23, 2022. The AHSC agreement will expire June 30, 2039 and the permanent loan must be funded by December 31, 2024, given all general and special conditions are satisfied. The City will be requesting an extension of the funding deadlines. Both programs are reimbursement-based progress payments, the City would need to advance funds for the financed projects.

CLIMATE SMART SAN JOSÉ

The recommendation in this memo aligns with one or more Climate Smart San José energy, water, or mobility goals. The Development prioritizes environmentally friendly features such as key bike and pedestrian gap closures and urban greening near the light rail stop and a critical Class IV bikeway that connects the Convention Center to the disadvantaged neighborhoods to the south. This program will participate in Viva Calle SJ; a program that temporarily closes miles of San José Streets to bring communities together to walk, bike, skate and explore the city. It includes the procurement of two electric buses to reduce headways on a VTA bus line and transportation related amenities such as Urban Greening improvements along Woz Way active transportation corridor which will include enhanced mid-block trail crossings. The proposed site is heavily used by the community for recreation, exercise, and outdoor education and is a vital link to high quality transit as well as the Children's Discovery Museum. The development and proposed offsite improvements will reduce greenhouse gasses by 37,502 Metric Tons.

HONORABLE MAYOR AND CITY COUNCIL

Subject: Authorization to Accept Affordable Housing and Sustainable Communities Round 4 Loan and Grant for the Balbach Site and the Associated Transportation-Related Capital Improvements and to Accept the Infill Infrastructure Grant

February 11, 2021

Page 7 of 12

POLICY ALTERNATIVES

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

Alternative: *The City Council could deny acceptance of the AHSC and IIG funds and the requested additional funding commitment.*

Pros: The City would avoid the financial risk associated with the AHSC and IIG joint and several liability requirements. The additional funds could be used for other affordable housing developments.

Cons: The City would lose the opportunity to apply State funds for new affordable housing, transportation infrastructure, services, and other amenities. 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: Staff expects to limit the risk derived from the joint and several liability requirements through project phasing, indemnification agreements, a workplan, and ongoing coordination. Furthermore, the risks associated with construction of the affordable housing development are minimal and can be mitigated through a variety of measures.

PUBLIC OUTREACH

This memorandum will be posted on the City Council's Agenda website prior to the February 23, 2021 City Council meeting.

COORDINATION

Preparation of this report has been coordinated with the City Attorney's Office, the Department of Transportation and 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.

HONORABLE MAYOR AND CITY COUNCIL

Subject: Authorization to Accept Affordable Housing and Sustainable Communities Round 4 Loan and Grant for the Balbach Site and the Associated Transportation-Related Capital Improvements and to Accept the Infill Infrastructure Grant

February 11, 2021

Page 8 of 12

FISCAL/POLICY ALIGNMENT

The Projects are consistent with: the City's *Envision 2040 General Plan*, *The 2014-23 Adopted Housing Element* by helping the City meet its Regional Housing Needs Allocation; the City's Downtown Strategy 2040 (Balbach); the City's current *Housing Investment Plan* by increasing the supply of affordable housing; the City's *2015-20 HUD Consolidated Plan* by providing apartments that will be affordable for very low- and extremely low-income households; the *Community Plan to End Homelessness* approved by the City Council in February 2015 by providing supportive housing for homeless residents; and the City's Vision Zero traffic safety program.

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

This action will provide the authority to accept a \$18,908,818 AHSC grant/loan and a \$3,577,755 IIG grant to fund the Arya affordable housing project. The grants and the low-interest permanent loan will provide the City's joint applicant, SAHA, with the necessary resources to complete the affordable housing development. Execution of the Grant Agreement and other necessary documents must be completed in time so that the housing project can close financing and proceed. Staff will return during the FY 2020-2021 Proposed Budget process with additional budget actions to recognize and appropriate funds for development to stay on schedule and to approve the proposed financing plan for the scope of work contained in the Loan and Grant Agreements.

Of the total grant amount, \$5,970,438 will fund capital improvement to improve pedestrian and bicycle access as described within the Climate Smart San José section above. These funds will be included in the developed of the 2021-2022 Proposed Capital Budget and 2022-2026 Capital Improvement Program. The project is anticipated to complete in Winter 2023 and funds will be received on a reimbursement basis over the course of construction.

HONORABLE MAYOR AND CITY COUNCIL

Subject: Authorization to Accept Affordable Housing and Sustainable Communities Round 4 Loan and Grant for the Balbach Site and the Associated Transportation-Related Capital Improvements and to Accept the Infill Infrastructure Grant

February 11, 2021

Page 9 of 12

CEQA

Not a Project, PP12-003, Agreement/Contract (New or Amended) resulting in no physical changes to the environment. Addendum to the Envision San José 2040 General Plan Final Program Environmental Impact Report (EIR) (Resolution No. 76041) and Envision San José 2040 General Plan Supplemental EIR (Resolution No. 77617) and Addenda thereto; Downtown Strategy 2000 Final EIR (Resolution No. 72767) and Addenda thereto, File No. H18-057.

/s/

JACKY MORALES-FERRAND
Director, Housing Department

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

Attachment A: AHSC Milestones

Attachment B: IIG Milestones

ATTACHMENT A – AHSC MILESTONES *

Arya Development

**On February 24, SGC will propose amendments to the Rounds 3, 4, and 5 AHSC guidelines to extend project delivery milestones by 1 year each.*

PGM PERFORMANCE MILESTONE	DATE
Identification and commitment of program operator and partners	4/1/2020
Completion of a business or a work plan	4/1/2020
Program funds fully disbursed	5/1/2022

STI PERFORMANCE MILESTONE	DATE
Executed binding agreement between the Recipient and developer of the proposed development detailing the terms and conditions of the Project development.	3/1/2020
Site Control of STI site(s) by proposed developer.	N/A
Completion of all necessary environmental clearances, including those required under CEQA and NEPA.	N/A
Obtaining all necessary and discretionary public land use approvals.	N/A
Submission of Final Construction Drawings and Specifications to the appropriate local permitting authority.	10/1/2021
Commencement of construction of STI.	2/1/2022
Construction completion of STI and closeout.	2/1/2023
Program funds fully disbursed.	12/31/2023

TRA PERFORMANCE MILESTONE	DATE
Executed binding agreement between the Recipient and developer of the proposed development detailing the terms and conditions of the Project development.	3/1/2020
Site Control of TRA site(s) by proposed developer.	N/A
Completion of all necessary environmental clearances, including those required under CEQA and NEPA.	N/A
Obtaining all necessary and discretionary public land use approvals.	N/A
Submission of Final Construction Drawings and Specifications to the appropriate local permitting authority.	10/1/2021
Commencement of construction of TRA.	2/1/2022
Construction completion of TRA and closeout.	2/12/2023
Program funds fully disbursed.	12/31/2023

ATTACHMENT B – IIG MILESTONES
Arya Development

PERFORMANCE MILESTONE	DATE
Executed binding agreement between the Recipient and developer of the proposed Housing Development detailing the terms and conditions of the Project development.	1/15/2020
Site Control of Housing Development site(s) by proposed housing developer.	1/15/2020
Completion of all necessary environmental clearances, including those required under CEQA and NEPA.	1/25/2019
Obtaining all necessary and discretionary public land use approvals.	1/30/2019
Obtaining all enforceable funding commitments for the Housing Development supported by the Infrastructure Project.	1/1/2021
Obtaining all enforceable funding commitments for all construction period financing.	1/1/2021
Obtaining enforceable commitments for all construction/permanent financing described in the Sources and Uses (as defined in Exhibit B to this Agreement) including substantially final construction/permanent loan documents, and Tax Credit syndication documents for remaining phases of Project.	3/15/2021
Submission of Final Construction Drawings and Specifications to the appropriate local building department or permitting authority.	12/17/2019
Commencement of construction.	4/1/2021
Construction complete and the filing of the Certificate of occupancy	5/1/2023