



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: January 19, 2017

Approved

D-OSYL

Date

1/20/17

COUNCIL DISTRICT: 3

SUBJECT: APPROVAL OF LOAN COMMITMENTS, A LAND PURCHASE AND GROUND LEASE FOR DEVELOPMENT OF THE VILLAS ON THE PARK AFFORDABLE APARTMENTS IN DOWNTOWN SAN JOSÉ

RECOMMENDATION

- (1) Adopt a resolution:
 - (a) Approving up to a total of \$16,600,000, including a commitment for a land acquisition loan of up to \$4,500,000 ("Acquisition Loan") and a total commitment for predevelopment/construction/permanent loans of up to \$12,100,000, to Affirmed Housing Group, Inc. or an affiliated development entity ("Affirmed/PATH Ventures" or "Developer") for the Villas on the Park Apartments, a new permanent supportive housing ("PSH") development to be located at 278 N. 2nd Street ("Site") in order to offer rent- and income-restricted apartments for 78 very low-income ("VLI") households ("Development") and approving a Loan-to-Value Ratio of greater than 100% for these loans;
 - (b) Authorizing the Director of Housing to acquire the Site from the Developer for a price not to exceed the Acquisition Loan balance at the time of transfer and to enter into a long-term ground lease of the Site to Developer for the Development; and,
 - (c) Authorizing the Director of Housing to negotiate documents and document amendments related to the loans, the acquisition and development of the Site, and the ground leasing of the Site.
- (2) Adopt the following Appropriation Ordinance amendments in the Low and Moderate Income Housing Asset Fund:
 - (a) Decrease the Housing Project Reserve appropriation in the amount of \$16,600,000; and
 - (b) Increase the appropriation for Housing Loans and Grants in the amount of \$16,600,000.

(3) Adopt the following Appropriation Ordinance amendments in the Community Development Block Grant Fund:

- (a) Decrease the Unrestricted Ending Fund Balance by \$2,000,000; and
- (b) Increase the appropriation for Property Acquisition in the amount of \$2,000,000.

OUTCOME

Approval of the recommended actions will enable the developer, Affirmed/PATH Ventures, to assemble financing to build a permanent supportive housing community in downtown San José that provides 78 income-restricted apartments, one unrestricted manager's apartment, space for 10 to 20 interim housing beds, and an array of support services for residents who have experienced chronic homelessness.

EXECUTIVE SUMMARY

The Housing Department seeks loan commitment approvals for predevelopment/demolition, land acquisition, and construction/permanent uses of up to a total of \$16,600,000 to support creation of Villas on the Park, a new 78-unit permanent supportive housing community for chronically homeless tenants to be located Downtown ("Development"). The development team is comprised of People Assisting the Homeless ("PATH") /PATH Ventures and Affirmed Housing (together, "Developer"). In addition to the \$16,600,000 total commitment, the budget actions include an additional \$2,000,000 to fund the future substitution of Community Development Block Grant ("CDBG") funds by Low and Moderate Income Housing Asset Fund for land acquisition costs. This substitution will enable the City both to meet CDBG expenditure deadlines and to allow its repayment so the CDBG funds can later be committed to another use. In addition to funding, the Administration is seeking authority for the Director of Housing to negotiate and execute documents to permit a long-term ground lease of the Site to the Development. The actions described in this memorandum will enable the Developer to apply for Low Income Housing Tax Credits, for a tax-exempt bond allocation, and for other needed development financing.

BACKGROUND

Homelessness and the lack of available housing for Extremely Low Income populations continues to be a pressing issue for the City of San José and Santa Clara County as a whole. According to the U.S. Department of Housing and Urban Development's 2015 Annual Homeless Assessment Report, among the 48 Major City Continuums of Care, Santa Clara County has:

- The highest rate of unsheltered homelessness;
- The third largest number of chronically homeless persons;
- The fifth largest number of unaccompanied homeless youth;
- The fifth largest number of homeless veterans; and
- The ninth largest number of homeless persons on any given night.

The City and its partners have been working towards a comprehensive, regional response to homelessness for many years. Since the early 1980s, the City has funded or facilitated the development of approximately 18,000 affordable rental apartments. Loans made by the Housing Department to finance these affordable properties comprise a loan portfolio of \$750 million. This portfolio, however, currently contains fewer than 100 supportive housing apartments to serve the needs of San José's most vulnerable residents.

With Destination: Home serving as the coordinating partner, leaders from the City, County, Housing Authority of the County of Santa Clara ("Housing Authority"), Santa Clara Valley Water District, service providers, philanthropic institutions, community groups, and business organizations, created the Community Plan to End Homelessness in Santa Clara County. In February 2015, the City Council adopted a resolution to endorse the Community Plan, making San José the first city in the County to formally extend its support for this critical effort.

In the past, the City has funded affordable housing for working families and individuals or seniors on fixed incomes. Homeless shelters have been funded but permanent supportive housing developments targeting homeless individuals have yet to be constructed in San José. Last year, the City Council approved the Housing Department's Affordable Housing Plan that prioritizes resources on rental housing development with the deepest level of affordability for extremely vulnerable residents.

Permanent supportive housing ("PSH") is an evidence-based housing intervention that combines non-time-limited affordable housing assistance with wrap-around supportive services for people experiencing homelessness, as well as other people with disabilities. While these resources have been limited in the past, both the County of Santa Clara and the Housing Authority have recently made major funding commitments to incentivize developers to build PSH. The City has approved or made financial commitments for several PSH communities in San José, creating opportunities for a total of 412 residents. However, the need for PSH for chronically homeless individuals currently residing in the Downtown core continues to outweigh the availability.

In 2013, the Housing Department initiated research of best practices for supportive housing projects in the downtown regions of large cities across California. The research included visits to successful PSH projects in San Diego, Los Angeles, and San Francisco. During this trip, representatives from the City of San José, County of Santa Clara, the Housing Authority, Downtown Business Association, Destination: Home, and other stakeholders learned how a PSH community may benefit both homeless individuals and the neighborhood surrounding the development.

In November 2014, the Housing Department issued a Request for Qualifications ("RFQ") to identify an experienced developer and operator interested in acquiring, constructing, and operating PSH for chronically homeless residents in the Downtown core of San José. Through this competitive process, the Housing Department received nine separate proposals, invited six Developers to present, and finally selected the team of People Assisting the Homeless ("PATH") /PATH Ventures and Affirmed Housing (together, "Developer") as the developer/service provider of a proposed PSH development in the Downtown San José.

In July 2016, the Housing Department, in partnership with the County of Santa Clara and the Housing Authority, issued a \$48,000,000 Notice of Funding Availability (“NOFA”) for development funding. The City’s highest priority was for PSH developments, while the Housing Authority and County prioritized developments for PSH and other vulnerable populations. In response to the NOFA, the Developer submitted a proposal and received a tentative conditional award of 78 project-based vouchers (“PBVs”) from the Housing Authority. These PBVs have an estimated annual value of \$621,000. This award is expected to be finalized after completion of environmental studies and shortly before construction closing. The Development also was deemed eligible for County supportive services to go along with the PBV award, and eligible for funding from the City of San José.

On November 16, 2016, the Planning Commission unanimously recommended that the City Council approve both a Rezoning and a Conditional Use Permit. On January 10, 2017, the City Council approved both the Rezoning and the Conditional Use Permit for the Development.

ANALYSIS

Developer Qualifications

PATH/PATH Ventures and Affirmed Housing bring significant experience both in the ability to develop affordable rental housing, and in providing ongoing services that allow for vulnerable populations to remain stably housed. PATH is a nonprofit homeless service provider and developer headquartered in Southern California. Since 2013, it has been responsible for housing 6,596 veterans, families, and residents who were chronically homeless throughout California. Its development arm, PATH Ventures, has built 624 new permanent apartments, with another 49 apartments in construction and 400 apartments in development. Affirmed Housing (“Affirmed”) is a for-profit housing developer based in the San Diego area. It has successfully developed 42 residential developments over the past 25 years, which include more than 3,300 affordable multifamily apartments primarily in California. Affirmed’s developments include new construction and rehabilitation of senior, family, and supportive housing communities.

Villas on the Park will be Affirmed Housing’s second affordable development in San José. Its other development, Fairways at San Antonio Apartments, is located at 305 San Antonio Court. Affirmed and PATH have a track record of working together successfully. They have completed two joint PSH developments in Southern California and are partnering on one other PSH development in addition to Villas on the Park.

The Site and Development

Villas on the Park will be located at 278 N. 2nd Street, a half block north of the historic St. James Park. It will include 78 studios for residents who have been chronically homeless, a two-bedroom resident manager’s apartment, an interim housing section that will accommodate 10-20 homeless individuals who are waiting for permanent housing, and supportive services onsite.

The interim housing may later be converted into five permanent studios depending on the future need for interim and permanent housing.

The Development will be a 6-story building comprised of Type I concrete first level with a 5-story Type III wood frame structure. The street level will accommodate the building entry, 24-hour security desk, and resident mailboxes, with elevator and stair access to the upper floors. A large portion of the first floor will be designed to accommodate a variety of enhanced services. Other first floor uses will include an employee lounge and outdoor patio, a small parking garage with parking lifts for efficiency, building utilities, and a large bicycle storage room. The second floor podium level will include the interim housing section, (which is accessed separately from the permanent apartments), four studios, the resident manager's office, six caseworker offices, a landscaped outdoor deck area, and a large community room and teaching kitchen overlooking 2nd Street. The upper floors will accommodate the other studios, the manager's apartment, and a large landscaped 6th floor outdoor patio with a raised bed planter for resident gardening.

The Development will be designed to Build It Green standards and will feature photovoltaic and hot water systems designed to offset a significant portion of the building's electrical and water heading requirements. The 6th floor green roof will include resident lounging, smoking areas, and a variety of landscaping including citrus and fruit trees. It will also include standard low-flow fixtures and energy efficient appliances. Finally, the Development will utilize open-air circulation corridors and elevator lobbies to facilitate air circulation throughout the structure and to eliminate the need for heating or cooling of these spaces.

The Development's architecture has been developed with the input of many key stakeholders and is intended to be warm and residential in character. The building design will be distinctively colorful, modern, and somewhat eclectic, while being mindful and respectful of the existing architecture in the neighborhood. The entry courtyard will be defined by a distinctively artful wall element that will allow both privacy and transparency. Additional setbacks along the north and east property line allow for massing of tall, vertical trees that will soften the impact of this new development on the existing adjacent residential properties.

Supportive Services, Staffing Plan, and Property Management

The Developer will provide onsite supportive services, supported by the County of Santa Clara, at no cost to assist residents in maximizing their physical, economic, and emotional well-being. PATH's integrated care service approach is designed to improve and better coordinate care for chronically homeless, vulnerable individuals. Services will be individually planned around the anticipated needs of each resident, and will be continually adjusted to reflect the changing needs of the tenant population. Services provided by the Developer will include:

- Outreach and engagement
- Orientation and needs assessment
- Case management
- Mental health care
- Substance abuse treatment
- Life skills education

- Community building
- Eviction prevention
- Green education
- Transportation planning.

Supportive services will be delivered by a proposed staffing contingent of the following:

- * 4 full time equivalent (FTE) case managers
- * 1 FTE residential services coordinator
- * 0.5 FTE Licensed Clinical Social Worker (LCSW)
- * 1.5 FTE Nursing and psychiatric staff.

The Development's operating costs will be supported by a combination of rents received from PBVs, rent paid by tenants, and funds from the County of Santa Clara for on-site services. PBVs pay for the difference between the amount of tenant-paid rent and 110% of the fair market rent, as defined by the local Housing Authority. The total rent paid, regardless of proportion paid by PBVs versus tenants, is what ensures financial feasibility.

To further strengthen the team, John Stewart Company ("JSCo") was selected by Affirmed/PATH Ventures as the best property management company to serve Villas on the Park. JSCo is a large property management and development company staffed by 1,000 employees in five offices across California. It manages a portfolio of over 350 affordable and market-rate properties with more than 20,000 apartments that house over 65,000 California residents. JSCo's experience includes managing 26 different affordable rental properties in California that integrate supportive services for special populations, most of which include formerly homeless residents. Thus, JSCo is an experienced, high-quality partner to manage Villas on the Park.

Financing and City Loans

The Development's total budget of approximately \$35,380,000 will be funded by construction and permanent loans from commercial banks, tax credit equity of approximately \$14.1 million, over \$1.1 million of developer fee contributed back as a source, and City funding of \$16.6 million including land. Additionally, staff expects that the Developer will successfully finalize commitments for 78 PBVs from the Housing Authority and for the County's provision of support services, as was the intent of the joint RFP/NOFA issued by the Housing Authority, City and County. The City's business terms also will require the Developer to seek other funding sources, as appropriate.

Brief descriptions of the City's loans for predevelopment, land acquisition, and construction/permanent phases are provided below. As with all the City's gap loan amounts, disbursements are made on a reimbursement basis as evidenced by expenditure receipts; therefore, if the full approved loan amounts are not needed, the amounts disbursed will be less than the approved amount. While some high level business terms are noted below, by the authority provided 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.

Predevelopment loan: Affirmed/PATH Ventures has obtained a predevelopment loan of \$1 million from the Housing Trust of Silicon Valley. Predevelopment costs are unusually high for this development due to the months of outreach and staff work that PATH and Affirmed have done pursuant to their selection through the City's RFQ. Specifically, more than 20 sites were considered for this development. While developer fees eventually reimburse staff work, it is difficult for developers to advance both staff costs and site predevelopment costs when the predevelopment period is lengthy. Therefore, the Developer has requested a predevelopment/demolition loan of up to \$1.0 million from the City ("Predevelopment Loan"). This request was anticipated and allowable in the City's NOFA, given the significant advance work for PSH developments and the desire to build as soon as possible.

The City has traditionally only made predevelopment loans to nonprofit affordable housing developers. This is because nonprofits rarely can accumulate significant enough cash resources to pay for predevelopment work that can take several years. Staff recommends approval of a City predevelopment loan for two reasons: 1) PATH, a nonprofit, is a bona fide development partner to Affirmed, and has done much of the active advance work associated with the Development; and 2) predevelopment loans of up to \$1 million for 100% PSH developments are necessary, given the significant need for advance community communication, education, and consideration of needed community amenities.

Therefore, staff recommends approval of this Predevelopment Loan of up to \$1.0 million that is secured on the Site, to be repaid in full by construction financing proceeds. Allowing the Loan to reimburse demolition costs may help to shorten the construction period so that homeless housing can be provided earlier. The entire \$1.0 million amount will be funded by the Low and Moderate Income Housing Asset Fund ("LMIHAF"). This fund holds loan repayments and other program income from assets originally funded by 20% redevelopment funds. If the Loan is used to reimburse demolition costs, the City's Loan closing would occur only after CEQA is completed, and loan documents will contain appropriate construction provisions.

Acquisition Loan: Staff recommends approval of a land Acquisition Loan of up to \$4,500,000, the amount to be paid by the Developer. If a City-engaged third-party appraisal yields a lower value prior to Loan closing, the Loan will be for the lesser amount. There are two main reasons to support this request. First, acquisition loans facilitate long-term ground lease structures in accordance with City practice, as analyzed below. Second, it allows the City to timely expend federal Community Development Block Grant ("CDBG") funds to meet federal deadlines. This action is scheduled to be authorized on January 31, 2017, via the City Council's approval of the Substantial Amendment to the FY 2016-17 Annual Action Plan.

The \$4.5 million acquisition loan will be funded by \$2.0 million in CDBG funds and \$2.5 million will be funded by LMIHAF funds. Per federal CDBG requirements, all environmental assessments, noticing and approvals for the National Environmental Policy Act (NEPA) shall be completed as a condition to Acquisition Loan closing. The City's loan documents will also integrate CDBG's use restrictions and requirements.

San José receives approximately \$8 million in CDBG funds annually and the amount of eligible community development uses far exceeds its availability. However, use of CDBG for this Development has two advantages: 1) it allows the City to meet spring 2017 federal expenditure deadlines; and, 2) its use for land acquisition enables use of the funds and then their near-term repayment. In this way, CDBG will be freed-up to use again for another eligible project. Therefore, the City will acquire the Site shortly before the start of construction by a grant deed in repayment for part or all of the outstanding Acquisition Loan balance. At that time, the City's CDBG funds also will be repaid and will be substituted in full by LMIHAF dollars as the Site is transferred to the City.

Construction/Permanent loan: The City's commitment as gap lender will fill the remaining need of up to \$16,600,000. Assuming a ground lease of the Site from the City to the Development is finalized, the City Construction/Permanent loan amount will be for up to \$16,600,000 less the approximate Acquisition Loan balance. If the land Acquisition Loan is \$4,500,000, and only a small amount of interest accrues given the anticipated short Acquisition Loan period, the Construction/Permanent Loan amount will be approximately up to \$12,100,000, composed entirely of LMIHAF funds. The City's Construction/Permanent loan will repay the City's Predevelopment Loan in full; therefore, the \$12.1 million amount includes the \$1.0 million in Predevelopment Loan uses.

The City's commitment to fill the construction/permanent loan funding gap is necessary at this time because it will enable Affirmed/PATH Ventures to pursue other public and private funding sources for the Development. In exchange for this commitment, staff will require the Developer to seek additional funding sources. This includes a competitive State Low Income Housing Tax Credit award of certificated credits to augment the federal credit award, and Affordable Housing Program funds from the Federal Home Loan Bank ("AHP"). The timeline in Attachment A anticipates Affirmed/PATH Ventures' seeking certificated State tax credits. Certificated State tax credits and other sources, if obtained, would reduce the City's committed 'up to' Construction/ Permanent loan amount before construction closing.

Even if other sources are not able to be obtained, the City's commitment averages \$212,820 for each of the 78 affordable apartments. This cost is consistent with the per unit subsidy for this type of development in high-cost markets. No City funds will be used for the interim housing opportunities; instead, tax credit equity and other development sources will pay for those costs.

Given that this Development will house residents who were formerly chronically homeless, it is unlikely to generate significant loan repayments in the first 15 years, or longer. Net proceeds that would otherwise be paid to the City and to the owner will be directed partially or wholly into services reserves, as required by the Development's senior lender and/or equity investor to enhance financial feasibility in future years.

Loan-to-Value: Because the Site currently houses a vacant building which requires demolition (which decreases the value of the Site) and because the Developer's acquisition cost is likely near its current value, it is likely that securing both the City's Predevelopment and Acquisition Loans on the Site will result in a loan-to-value ("LTV") ratio of more than 100%. The

repayment source for the Predevelopment Loan is construction financing proceeds, and the repayment source for the Acquisition Loan is assumption of the Site's ownership shortly before construction closing. Given that Affirmed/PATH Ventures is pursuing an award of noncompetitive 4% federal tax credits and tax-exempt bonds issued by the City, the likelihood of both of these loans being repaid is excellent.

The Housing Department will obtain an appraisal to be prepared for the senior lender shortly before construction closing to determine an estimated combined LTV ratio for the City's Construction/Permanent Loan. The appraisal will likely indicate a combined LTV ratio that significantly exceeds 100%, the City's LTV policy threshold. This LTV threshold is intended to reduce the City's risk of loss associated with the loan. In this case, the deep affordability of the Development that is required to serve the chronically homeless population both increases the needed public subsidy and decreases the Development's market value. This mathematically results in an elevated LTV. High cumulative LTVs, which include soft debt from public lenders, are very common in the affordable housing industry and are considered acceptable by City staff for this type of development.

Site Purchase and Ground Lease

A long-term ground lease structure from the City to the Development was a requirement of the NOFA. The City's regular use of land acquisition and ground leases allows the City to have greater control over the long-term provision of affordable developments in key locations. In addition, use of ground leases enhances developments' competitiveness for funding for sources such as AHP and State programs. Ground leases also result in smaller debt burdens for developments, which improves the repayability of the City's construction/permanent loans.

The requested actions in this memorandum will enable the City to take ownership of the Site and enter into a long-term, low-rent ground lease of the Site to the Development. The ground lease term will be at least 55 years, and may be extended at the Director of Housing's discretion to a term of up to 99 years. At the end of the lease term, the City will own the land and the building.

This memorandum requests authority for the Director of Housing to negotiate and execute documents and amendments that will be needed or helpful to effectuate the City's acquisition, ownership, and long-term lease of the Site to the Development. These may include, but are not be limited to: an option agreement that establishes the price and conditions for the Developer's sale of the Site to the City for an amount not to exceed the Acquisition Loan balance at the time of transfer; a purchase and sale agreement with an option agreement for the Developer to enter into a long-term City ground lease; a right of entry that enables the Developer and its contractors to access the Site once it is conveyed to the City; and, the ground lease itself. The Developer will have up to 12 months to exercise the option to ground lease with one six-month extension at the City's discretion, for a total of 18 months. However, it is unlikely that a long of an option period will be necessary, as it is expected the City will acquire the Site from the Developer shortly prior to the Development's close of construction financing in summer 2017.

Affordability and Population Requirements

All residents in the permanent apartments at Villas on the Park will meet the Housing Authority's definition of "chronically homeless" at the time they first occupy their apartments, and it is expected that all will be extremely low-income. As the joint RFP/NOFA contained priorities for developments serving the chronically homeless, the City's loan documents will contain the requirement to serve the chronically homeless population for 55 years, subject to the availability of both project-based rental assistance or its equivalent and support services. Both PBVs and services commitments are necessary for long-term resident stability and long-term development feasibility.

At the time of Site acquisition, the City will record high-level affordability restrictions that allow higher affordability than anticipated in the Development to allow flexibility until construction closing. The affordability restrictions will integrate requirements from both Fund 346 and CDBG, as required by those funding sources. At construction closing, staff will record affordability restrictions on the leasehold interest requiring that 78 studios serve tenants at or below 35% of Area Median Income ("AMI"). The 35% AMI level substitutes for what otherwise would be a 30% AMI restriction in order to accommodate the differences in rent calculations between federal PBVs and State Health and Safety Code regulations governing use of LMIHAF funds. The City will also record baseline Affordability Restrictions on the fee interest, to ensure that this Site will continue to offer restricted affordable housing despite future changes in financing structures.

EVALUATION AND FOLLOW-UP

The Housing Department produces quarterly Information Memos on the use of the Director of Housing's Delegation of Authority under the Municipal Code. Final loan business terms will be summarized in those Memos. The City will also issue tax-exempt bonds for this Development, so the City Council will be asked to approve bond documents and bond issuance close to the close of construction. Finally, the 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 Villas on the Park successfully closes construction financing, it will be included in these Production Reports.

POLICY ALTERNATIVES

To arrive at this proposal, Housing Department staff considered the following options:

- Alternative:*** ***The City Council could deny the funding request.***
- Pros:** The funds being requested could be used for other restricted-affordable housing developments.
- Cons:** If it does not fund Villas on the Park, the City will lose this opportunity to provide permanent supportive housing for homeless individuals currently residing in the Downtown. Also, LMIHAF funds must be used to create or improve permanent or transitional affordable housing opportunities, and could not be redirected to pay for other uses to help homeless San José residents, such as services or shelters.
- Reason for not recommending:*** Villas on the Park will help to meet the demand for permanent supportive housing that is affordable to the most vulnerable homeless individuals. The Development is expected to obtain long-term PBVs from the Housing Authority and services commitments from the County, both of which are available and are required for sustainable permanent supportive housing. Funding Villas on the Park will help the City to fulfill its affordable housing goals and to implement one part of its homeless strategy.

PUBLIC OUTREACH

The Developer implemented a comprehensive outreach plan to engage with the community, to provide information, to answer questions, and to better understand the concerns of neighborhood residents and businesses. Community meetings were held in November 2015, February 2016, and August 2016, and individual or small group meetings were convened with more than 150 individual attendees. In addition, the Developer communicated with the community via email, hard-copy mailings to more than 700 local residents, a website dedicated to providing information about the Development, and attendance at meetings of several Neighborhood and Business Associations, such as: the Horace Mann Neighborhood Association; the Hensley Historic Neighborhood Association; the San José Historic District Association; the SoFA Business Association; and the San José Downtown Residents Association.

As mentioned, the Planning Commission unanimously recommended that the City Council approve both a Rezoning and a Conditional Use Permit on November 16, 2016. On January 10, 2017, the City Council approved both the Rezoning and the Conditional Use Permit for the Development. These actions had their own separate noticing and public hearing requirements. This memorandum will be posted on the City's Council Agenda website for the January 31, 2017, Council Meeting.

COORDINATION

Preparation of this report was coordinated with the Office of the City Attorney.

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 Jose'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. It was also identified in the Department's adopted *Affordable Housing Investment Plan*.

The City's existing Dispersion Policy, adopted in 1988 and amended in 1995, encourages City-funded affordable housing to be constructed throughout San José to achieve socio-economic integration at the neighborhood level. It discourages concentration of low-income households by defining developments' location in 'impacted' census tracts (in which more than 50% of households are low-income) as one criterion to consider in evaluating City approvals. Per 2015 Census and County income data, Villas on the Park is not located in an impacted census tract.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION:

<u>USES (WITH SOURCES NOTED)</u>	<u>UP TO AMOUNTS</u>
Predevelopment soft costs (LMIHAF)	\$1,000,000
Land acquisition (LMIHAF/CDBG) *	\$4,500,000
Hard costs & non-City-predevelopment soft costs (LMIHAF)	\$11,100,000
TOTAL (NET)	\$16,600,000

* Note: Land Acquisition costs will be initially funded by the Low and Moderate Income Housing Asset Fund (\$2.5 million) and the Community Development Block Grant Fund (\$2.0 million). The Community Development Block Grant Fund will be repaid from the Low and Moderate Income Housing Asset Fund once the site is transferred to the City.

2. SOURCE OF FUNDING: \$16,600,000 in Low and Moderate Income Housing Asset Fund (Fund 346), and \$2,000,000 in Community Development Block Grant (Fund 441).

While the total needed for gap financing including land is \$16,600,000, the \$2,000,000 in CDBG will be used for acquisition and later repaid in full by LMIHAF funds; therefore, the funding budgeted is additive of these two amounts for a total of \$18,600,000.

3. FISCAL IMPACT: No ongoing fiscal impact.

BUDGET REFERENCE

The table below identifies the appropriation proposed to fund the commitment recommended as part of this memorandum.

Fund #	Appn #	Appn. Name	Total Appn	Rec. Budget Action	2016-2017 Adopted Operating Budget	Last Budget Action (Date, Ord. No.)
346	8437	Housing Project Reserve	\$62,483,000	(\$16,600,000)	X-53	10/18/2016, 29803
346	0070	Housing Loans and Grants	\$19,533,742	\$16,600,000	X-53	10/18/2016, 29803
441	8999	Unrestricted Ending Fund Balance	\$2,180,213	(\$2,000,000)	X-15	10/18/2016, 29803
441	3115	Property Acquisition	\$0	\$2,000,000	N/A	N/A

HONORABLE MAYOR AND CITY COUNCIL

January 19, 2017

Loan Commitments and Ground Lease for the Villas on the Park Apartments

Page 14

CEQA

Addendum to the San Jose Downtown Strategy 2000 Final Program Environmental Impact Report, and the Envision San Jose 2040 General Plan Final Program Environmental Impact Report and Supplemental Environmental Impact Report, File Nos. C16-020, CP16-014, and AT16-030.

/s/

JACKY MORALES-FERRAND

Director, Housing Department



JENNIFER A. MAGUIRE

Senior Deputy City Manager/
Budget Director

Attachment A: Anticipated Development Timeline

Attachment B: Site Map

For questions, please contact Jacky Morales-Ferrand, Director, at (408) 535-3855.

ATTACHMENT A

Anticipated Development Timeline Villas on the Park Apartments

Submit Construction Drawings for Building Permits	Early 2017
Apply for Low Income Housing Tax Credits	March 2017
Purchase Site	March 2017
Apply for Tax-exempt Bond Allocation	March 2017
Receive Bond Allocation Award	May 2017
Receive Tax Credit Award	June 2017
Close Financing and Start Construction	August-September 2017
Complete Construction	Late 2018-Early 2019

ATTACHMENT B

Site Map Villas on the Park Apartments

