



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: July 17, 2017

Approved

D. DSYL

Date

7/26/17

COUNCIL DISTRICT: 5

SUBJECT: APPROVAL OF A PREDEVELOPMENT LOAN FOR QUETZAL GARDENS, A NEW AFFORDABLE APARTMENT COMMUNITY

RECOMMENDATION

Adopt a resolution approving a Predevelopment Loan of up to \$1,000,000 in Low and Moderate Income Housing Asset Funds ("LMIHAF") to Resources for Community Development, or an affiliated development entity, ("RCD" or "Developer") for the Quetzal Gardens Apartments, a new affordable development to be located at 1695 Alum Rock Avenue ("Site") in order to offer rent- and income-restricted apartments for 70 extremely low-income ("ELI") and very low-income ("VLI") households ("Project").

OUTCOME

Approval of the recommendation will enable the Developer, RCD, to prepare plans and specifications and obtain building permits for a new housing community comprised of 70 affordable apartments in San José.

BACKGROUND

In July 2016, following the City Council's direction, the Housing Department issued a \$48,000,000 Notice of Funding Availability ("NOFA") for development funding. This NOFA was prepared and issued in partnership with the County of Santa Clara ("County") and the Housing Authority of the County of Santa Clara ("HACSC"). The highest priority for the NOFA was the development of housing for the homeless. In response to the NOFA, the Developer submitted a proposal and received a tentative conditional award for the Project.

The Project was deemed eligible for 32 project-based vouchers (“PBVs”) from HACSC, supportive services from the County, and a subsidy commitment request to the City Council, as described in this memorandum. On June 14, 2017, the Planning Commission unanimously approved a Conditional Use Permit and Site Development Permit for the Project.

ANALYSIS

The Development Team

For nearly 34 years, RCD has developed more than 2,200 affordable housing apartments and currently operates a portfolio with more than 2,000 apartments. Throughout its history, RCD’s mission has been to create and preserve affordable housing for the most vulnerable individuals and families. RCD is committed to creating homes for residents who have been homeless or at risk of homelessness, people living with disabilities and special needs, and the elderly.

Table 1: Development Team

Developer	Resources for Community Development
Limited Partnership	Quetzal Gardens, LP
Architect	SGPA Architecture and Planning
Service Provider	Abode Services
Property Management	The John Stewart Company

The Site and Development

Located at 1695 Alum Rock Avenue, the Project will include 70 service-enriched affordable apartments, a manager’s unit, and service/community space for 20 ELI, formerly homeless, individuals and 50 VLI families earning between \$17,860-\$55,800 annually. A map of the Site is provided as **Attachment A**.

The Project will consist of six levels which are designed to promote social interaction with supportive supervision. The ground level and first-floor will feature a lobby, manager’s office, mail room, bike parking, trash rooms, parking garage, and nearly 7,000 square feet of retail space for a community serving non-profit. The third-floor podium courtyard will offer two offices and meeting space for supportive service staff, a community room, and play and outdoor space. Residents will also have access to a computer lab and technology lessons from resident services staff.

The Developer intends to partner with Somos Mayfair (“Somos”) to activate the ground level retail space and supplement services provided to the building residents. Somos is a grassroots organization with nearly 20 years of experience supporting low-income families with children ages 0 – 8 in east San José. Originally established to address the blight, crime, and lack of community resources plaguing the Mayfair neighborhood, Somos has evolved into an organization that complements direct services with community building.

The Developer, with support from the County, has selected Abode Services (“Abode”) as the onsite provider of integrated care for the 20 ELI formerly homeless residents. 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.

Table 2: Development Summary

Address	1695 Alum Rock Avenue
Urban Village Plan	Alum Rock Urban Village Plan
Development Type	New Construction
Construction Type	Type 1-B
Parking Type	On Grade Podium – 2 stories
Residential Parking Spaces/Ratio	68 spaces/71 units = .96 spaces per unit
Commercial Parking Spaces	26 spaces – minimum required
Housing Type	Affordable plus Permanent Supportive Housing and Rapid Rehousing
Lot size	.74 acres (32,427 SF)
Units	70 units and 1 two-bedroom manager unit
Density	95.9 Dwelling Units/Acre
Gross Building Area	107,655 SF
Commercial Space	12,175 SF
Parking Space	31,731 SF
Residential Space	63,749 SF
Number of Project Based Vouchers	32
Prevailing Wages?	Yes
Developer’s Compliance History	First loan between the RCD and City

The anticipated unit mix by income level is detailed in Table 3. The income mix may change and will be finalized before the Housing Department returns to City Council to seek a funding commitment for a construction/permanent loan.

Table 3: Unit and Proposed Income Mix

UNIT SIZE	20% AMI		35% AMI		50% AMI		Total
	Apts.	Max. income	Apts.	Max. income	Apts.	Max. Income	
1-BRs	17	\$19,120	3	\$33,460	8	\$47,800	28
2-BRs	0	\$21,500	4	\$37,625	10	\$53,750	14
3-BRs	0	\$23,880	6	\$41,790	22	\$59,700	28
Unrestricted 2-BR Manager Unit	NA	NA	NA	NA	NA	NA	1
Total	17		13		40		71

Project Financing and City Predevelopment Loan

The total preliminary estimate of development sources for the Project is approximately \$53,000,000. This amount represents expected tax credit equity, funds from the Federal Home Loan Bank's Affordable Housing Program (AHP), a conventional mortgage loan, and contributions from the City of San José and the County.

RCD estimates the Project's total predevelopment costs at \$1,600,000. Staff recommends approval of a Predevelopment Loan of up to \$1,000,000 for the Project. The Predevelopment Loan will cover: fees for architectural, engineering, and other consultants to prepare drawings and documents necessary to file building permit applications. The Predevelopment Loan would be secured on the Site, to be repaid in full by construction financing proceeds. The Predevelopment Loan amount will be funded from the LMIHAF. The remaining predevelopment costs will be paid from sources other than City funding.

RCD will guarantee repayment of the City's Predevelopment Loan even in the event the Project does not move forward. Staff has reviewed the two most current year-end audited statements of RCD and determined the company has a strong financial position. Specific business terms for the Permanent Loan will be approved by the Director of Housing pursuant to the Director's Delegation of Authority Ordinance, located in Chapter 5.06 of Title 5 of the San José Municipal Code.

In late 2017/early 2018, Housing Department staff expect to return to City Council to seek a funding commitment for a construction/permanent loan. This will enable RCD to apply for Low Income Housing Tax Credits for the Project in Spring 2018. Staff will provide more detailed information about the Project's total development costs and funding at that time. The anticipated timeline for development of the Project is provided as **Attachment B**.

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; 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 Quetzal Gardens successfully closes construction financing, it would be included in these Quarterly Production Reports.

POLICY ALTERNATIVES

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

Alternative:	<i>The City Council could deny the request for funding</i>
Pros:	The funds being requested could be used for other affordable housing developments.
Cons:	The City will lose an opportunity to provide housing for low-income residents in San José.
Reason for not recommending:	The Predevelopment Loan will position RCD to seek the approvals/funding necessary to develop affordable housing for the most vulnerable homeless individuals and families. The Project will help the City fulfill its affordable housing goals.

PUBLIC OUTREACH

The Developer implemented a comprehensive outreach plan to engage with the community to provide information, answer questions, and better understand the concerns of the neighborhood residents and businesses. From August 2017 to May 2017, the Developer hosted a total of 13 neighborhood or community meetings, attended by more than 200 community members, addressing a wide array of topics such as project design, services, and property management. In addition, this memorandum will be posted on the City's Council Agenda for August 8, 2017.

COORDINATION

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

The City's existing Dispersion Policy, adopted in 1988 and amended in 1995, encourages City-funded new construction affordable housing to be located 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 commitments.

Per 2015 American Community Survey data, 73.4% of households in census tract 5036.01 are low income, earning less than \$41,800 for a one-person and \$59,700 for a 4-person household, indicating that this site is located within an impacted Census Tract. However, upon further review this site is located within the Alum Rock Avenue Urban Village Area, is less than a half mile from high quality transit along Alum Rock Avenue and King Road, and is within walking distance of neighborhood retail and the Mexican Heritage Plaza. In addition, this development will provide ground-floor commercial uses providing easy access to additional jobs and services. This development is consistent with the General Plan goal IP 5.1 which calls for at least 25% or more of units in an Urban Village to be affordable.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION:

<u>USES</u>	<u>UP TO AMOUNTS</u>
Predevelopment	<u>\$1,000,000</u>
TOTAL	\$1,000,000

2. SOURCE OF FUNDING: \$1,000,000 in Low and Moderate Income Housing Asset Fund (Fund 346).

3. FISCAL IMPACT: No ongoing fiscal impact.

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	Amt. for Contract	2017-2018 Operating Budget*	Last Budget Action (Date, Ord. No.)
346	0070	Housing Loans and Grants	\$26,600,000	\$1,000,000	852	6/20/2017, 29962

*The 2016-2017 Proposed Operating Budget was adopted by the City Council on June 20, 2017

CEQA

Exempt, File No. CP17-009, per CEQA Section 15332 In-Fill Development Projects.

/s/
JACKY MORALES-FERRAND
Director, Housing Department

For questions, please contact Acting Division Manager, Patrick Heisinger at (408) 975-2647.

Attachment A: Site Map
Attachment B: Anticipated Development Timeline

ATTACHMENT A
Site Map – Quetzal Gardens



ATTACHMENT B

Anticipated Development Timeline Quetzal Gardens

Apply for County Funding	October 2017
Submit Construction Drawings for Building Permits	April 2018
Apply for Low Income Housing Tax Credits	June 2018
Apply for Tax-exempt Bond Allocation	June 2018
Bond Allocation Award	August 2018
Tax Credit Award	August 2018
Close Financing and Start Construction	September 2018
Complete Construction	February 2020