



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: June 7, 2017

Approved

Date

COUNCIL DISTRICT: 6

**SUBJECT: APPROVAL OF A FUNDING COMMITMENT FOR PREDEVELOPMENT
AND CONSTRUCTION/PERMANENT FINANCING FOR THE LEIGH
AVENUE SENIORS APARTMENTS PROJECT AND APPROPRIATION
ACTIONS**

RECOMMENDATION

(a) Adopt a resolution:

- (1) Approving up to \$9,000,000, including a construction-permanent loan of up to \$8,000,000 in Low and Moderate Income Housing Asset Funds ("LMIHAF"), to First Community Housing or an affiliated development entity ("FCH" or "Developer") for the Leigh Avenue Apartments, a new, senior affordable development to be located at 1030 Leigh Avenue ("Site") in order to offer rent- and income-restricted apartments for 63 extremely low-income ("ELI") and very low-income ("VLI") households ("Project");
- (2) Approving a predevelopment loan of up to \$1,000,000, an amount that is part of the total commitment loan amount;
- (3) Approving a Loan-to-Value of greater than 100% for these loans; and
- (4) Authorizing the Director of Housing to negotiate and execute all documents required to effectuate the development of the Project, including authority to approve any subdivision maps and related documents.

(b) Adopt the following 2017-2018 Appropriation Ordinance amendments in the Low and Moderate Income Housing Asset Fund:

- (1) Increase the Housing Loans and Grants appropriation by \$3,000,000; and
- (2) Decrease the Housing Project Reserve by \$3,000,000.

OUTCOME

Approval of the recommended actions will enable the Developer to assemble financing to build a new housing community comprised of 63 senior affordable apartments in San José.

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EXECUTIVE SUMMARY

The Housing Department seeks loan commitment approvals for predevelopment and construction-permanent uses of up to a total of \$9,000,000, as well as authorization for the Director of Housing to negotiate and execute a variety of documents to effectuate the development of the Project. The actions described in this memorandum will enable the Developer to apply for Low Income Housing Tax Credits, a tax-exempt bond allocation, and other needed development financing.

BACKGROUND

In partnership with the County of Santa Clara ("County") and the Housing Authority of the County of Santa Clara ("HACSC"), the Housing Department issued a \$48,000,000 Notice of Funding Availability ("NOFA") for development funding. The NOFA expressed that the highest priority for award of funds was the development of housing for formerly homeless individuals and families. 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 63 project-based vouchers ("PBVs") from HACSC, supportive services from the County, and a funding commitment from the City, as described in this memorandum.

ANALYSIS

Information regarding the developer and the proposed development is provided below.

Developer Qualifications

FCH's mission is to serve low-income individuals, families, seniors, and special needs populations including the chronically homeless and the developmentally disabled. FCH has completed numerous successful projects with loans from the City. In 32 years, FCH has developed more than 1,300 affordable housing apartments throughout the Bay Area. They possess sufficient financial capacity to complete this Project.

The Site and Development

FCH obtained control of the Site in 2008. The Planned Development ("PD") permit for the Project was issued on July 10, 2009. Due to delays in obtaining project financing, FCH obtained extensions of the PD permit on two separate occasions. The current permit is valid until July 2019.

Project Overview

The Project is a transit-oriented infill development located at 1030 Leigh Avenue, where Leigh Avenue and Southwest Expressway intersect. FCH is planning to build 64 apartments above approximately 7,000+ square feet of commercial space. 63 one-bedroom affordable apartments will serve households earning 30-50% of the area median income (AMI). This equates to incomes between \$23,000 and \$44,600 per year for one and two person households. Included in the 64

apartments are 20 apartments reserved for extremely vulnerable formerly homeless seniors and 23 apartments reserved for seniors requiring in-home supportive services. There will also be one unrestricted two-bedroom manager's unit.

The Project will be four levels, with a first-level concrete podium and 3 levels of wood frame construction above. Parking and commercial space will be located at the ground level and residential apartments will be located on the upper levels. All apartments will have private balconies and elevator access. Common areas will include office space for the Property Manager, Social Service Coordinator, and Case Manager, centralized laundry facility, multiple community rooms and lounge areas, a large outdoor community courtyard at the podium level, community gardens and living roof, and a computer lab.

As with other FCH new construction projects, the building will be designed to achieve LEED Platinum designation. In addition, the Project will be a pilot for the Healthy Building Network's HomeFree Initiative, whose goal is to improve the health of residents in affordable housing by using less toxic building materials. The Project is located within 1,550 feet of a light rail station and all households will receive a free, annual Eco Pass providing free bus and light rail access throughout Santa Clara County.

The Project's commercial space will be subdivided and sold as a condominium. Potential uses for the space include dental or medical offices.

Property Management & Supportive Services

Christian Church Homes (CCH) will provide property management services and supportive services coordination at the Project. The County will provide and fund in-home supportive services at no cost to the residents of the 23 apartments restricted to extremely vulnerable, formerly homeless seniors. Abode Services will provide intensive case management for the 20 formerly homeless households.

CCH's Service Coordination Program provides a wide array of supportive, education, advocacy, and crisis intervention services to its senior residents, most of which are accessed on an as-needed basis. Through a proactive and early preventive approach, service coordinators are often able to empower senior residents to take charge of maintaining their independence. Services include needs assessment, follow up reassessment, information referral for services, as well as social and recreational activities. CCH's service coordinators organize supportive services for more than 5,600 senior residents from diverse ethnic backgrounds each month. Each contact is made in response to the needs of an individual senior resident. Assessment and referrals are made with sensitivity to cultural background of the individual resident.

The case management services provided by Abode will include housing retention services; clinical case management; benefits advocacy and income support assistance; money management; nutritional counseling; and community building. Abode will also provide residents with assistance in obtaining other resources such as child care, transportation, job training and job placement. Abode Services has more than 25 years of experience in offering supportive services to homeless and formerly homeless households.

Project Financing and City Loans

The Project's financing plan includes funding commitments for various sources. The City's contribution will be in the form of predevelopment, development, and construction/permanent loans. Current financing assumptions for the Project are detailed below:

Construction/Permanent Sources:

CONSTRUCTION SOURCES	Amount
Tax Exempt Construction Loan	\$23,200,000
City of San Jose Loan	\$6,000,000
County Measure A Loan	\$6,000,000
FHLB AHP Loan	\$750,000
Accrued/Deferred Soft Loan Interest	\$765,000
Park Fee Waiver	\$1,370,000
Costs Deferred until Conversion	\$4,080,000
GP Equity	\$378,000
LP Equity	\$157,000
TOTAL CONSTRUCTION SOURCES	\$42,700,000

PERMANENT SOURCES	Amount
Tax Exempt Permanent Loan	\$9,000,000
City of San Jose Loan	\$9,000,000
County Measure A Loan	\$10,000,000
FHLB AHP Loan	\$750,000
Park Fee Waiver	\$1,370,000
Deferred Developer Fee	\$1,750,000
GP Equity	\$378,000
LP Equity	\$10,452,000
TOTAL PERMANENT SOURCES	\$42,700,000

City's Predevelopment Loan: Without the certainty of predevelopment funding, projects are unable to complete the entitlement process, which is a necessary precursor to applying for State funding such as tax credits. Therefore, the Developer has requested a predevelopment loan of up to \$1,000,000 from the City ("Predevelopment Loan"). The Predevelopment Loan will be secured by the Site and will be repaid in full by the City's construction-permanent loan. The \$1,000,000 Predevelopment Loan amount will be funded from the LMIHAF. If the loan is approved, the Director of Housing will negotiate additional terms and execute documents for these loans in accordance with the authority delegated to the Director under section 5.06.335 of the Municipal Code.

Additionally, staff expects that the Developer will obtain final commitments for 63 PBVs from the HACSC and for the County's provision of support services, as was the intent of the NOFA.

City's Construction-Permanent loan: The City's commitment as gap lender will fill the remaining need of up to \$8,000,000 composed entirely of LMIHAF funds.

The City's construction-permanent loan commitment is necessary at this time because it will enable FCH to pursue other public and private funding sources for the Project. Accordingly, staff will require the Developer to seek additional viable sources, such as a competitive State Low Income Housing Tax Credit award to augment the federal award, and Affordable Housing Program funds from the Federal Home Loan Bank. The timeline in Attachment A anticipates the time required for FCH to seek State tax credits. Other sources would reduce the City's committed gap funding Construction-Permanent loan amount.

Final business terms will be determined closer to construction closing, pursuant to the Director of Housing's limited delegation of authority to negotiate and execute Council-approved loans under Section 5.06.335 of the Municipal Code, including authority to approve any subdivision maps and related documents.

Loan-to-Value: To determine an estimated loan-to-value ("LTV") ratio for the City's Construction-Permanent Loan, Housing staff will obtain an appraisal to be prepared for the senior lender shortly before construction closing. The City's LTV policy requires that the LTV ratio not exceed 100%, thereby reducing the City's risk of potential loss associated with a loan. However, the deep affordability of the Project—required to serve the extremely vulnerable residents—both increases needed public subsidy and decreases the Project's market value, possibly leading to an increased LTV ratio.

In the event that securing both the Predevelopment Loan and the Construction-Permanent Loan on the Site results in an LTV ratio that exceeds the City's LTV policy threshold, staff recommends approval of allowing an LTV ratio for the Project that is greater than 100%. A higher LTV ratio is considered acceptable by City staff since the Project's operating income is expected to be at least 115% of the permanent mortgage debt service payments. This formula is a common standard of financial feasibility and will be used by the senior permanent lender.

Affordability and Population Requirements

At construction closing, staff will record affordability restrictions on the Site for 63 apartments at 30% - 50% of AMI, with an anticipated resident mix, as follows: 20 apartments at 30% of AMI; 23 apartments at 40% of AMI; and 20 apartments at 50% of AMI. The 20 residents who meet the criteria of 30% AMI will also meet the federal definition of "chronically homeless."

This Project-specific affordability restriction will not be subordinated to senior lenders. In the event of foreclosure by a lender senior to the City's Deed of Trust, the Affordability Restrictions will allow rents and incomes to increase up to 60% of AMI for the 63 income-restricted units. Increases require prior notice to the City. If rent increases to 60% AMI are not necessary for financial

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feasibility (in case of senior lender foreclosure), the AMIs shall be increased to less than 60% AMI in order to preserve the greatest affordability.

As the joint RFP/NOFA contained priorities for developments serving the chronically homeless, the City's construction loan agreement will contain a requirement restricting certain units to the chronically homeless population for 55 years, subject to the availability of project-based rental assistance and supportive services.

EVALUATION AND FOLLOW-UP

The Housing Department produces quarterly Information Memoranda 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 Memoranda. 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 the Developer successfully secures construction financing, the Project will be included in these Quarterly Production Reports.

POLICY ALTERNATIVES

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

Alternative: *The City Council could deny the requests for funding and ground leasing.*

Pros: The funds being requested could be used for other affordable housing developments.

Cons: The City will lose an opportunity to create affordable units for 63 households, of which 20 are chronically homeless and 23 apartments reserved for seniors requiring in-home supportive services.

Reason for not recommending: The proposed Project will help to meet the demand for supportive housing that is affordable to the most vulnerable homeless individuals, especially senior households. The Project will help the City fulfill its affordable housing goals.

PUBLIC OUTREACH

The Developer conducted initial outreach for the Project dating back to 2008. On November 29, 2016, FCH hosted a third public meeting to inform the community that the Project was moving forward and that 20 apartments would be reserved for formerly homeless seniors. The information was well-received. In addition, this memorandum will be posted on the City's Council Agenda for June 20, 2017.

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: (i) *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; (ii) the City's current *Housing Investment Plan* in that it increases San José's supply of affordable housing; (iii) 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.

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, 67% of households in this proposed Project's census tract are low-income, indicating that this site is located within an impacted Census Tract. However, upon further review, there are several reasons why this Project should proceed. The site is located within a future Urban Village Area, is less than a half-mile from high quality transit, and is within walking distance of existing neighborhood retail including a food market, a drug store, a clothing store, restaurants, and a credit union. Further, this site 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. The Project has also already received its land use entitlements, which identify it as an affordable housing development. Given the need for affordable rental homes throughout the City and particularly given the site's proximity to transit, staff recommends this Project for funding.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION:

USES

Predevelopment
Hard costs and other soft costs
TOTAL

UP TO AMOUNTS

\$1,000,000
\$8,000,000
\$9,000,000

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2. **SOURCE OF FUNDING:** Low and Moderate Income Housing Asset Fund (Fund 346). To ensure that the Housing Loans and Grants appropriation has sufficient capacity to meet anticipated obligations in 2017-2018, an additional \$3.0 million is recommended for reallocation from the Housing Project Reserve.
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	Proposed Action	2017-2018 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
346	0070	Housing Loans and Grants	\$23,600,000	\$3,000,000	852	N/A
346	8437	Housing Project Reserve	\$56,383,000	(\$3,000,000)	853	N/A

*The 2017-2018 Proposed Operating Budget is scheduled to be reviewed and adopted by the City Council on June 20, 2017.

CEQA

PD07-083/PD07-089, Mitigated Negative Declaration and PDA07-089-01, Determination of Consistency with the MND.

/s/
JACKY MORALES-FERRAND
Director of Housing


JENNIFER A. MAGUIRE
Senior Deputy City Manager/
Budget Director

Attachment A: Anticipated Development Timeline
Attachment B: Site Map

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

ATTACHMENT A

Anticipated Development Timeline Leigh Avenue Apartments

Submit Construction Drawings for Building Permits	November 2017
Apply for County Funding	July 2017
Apply for Low Income Housing Tax Credits	March 2018
Apply for Tax-exempt Bond Allocation	March 2018
Bond Allocation Award	May 2018
Tax Credit Award	May 2018
Close Financing and Start Construction	August 2018
Complete Construction	February 2020

ATTACHMENT B
Site Map – Leigh Avenue Apartments

