COUNCIL AGENDA: 3/18/08
ITEM: 4.3

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leslye Krutko
Larry D. Lisenbee

SUBJECT: SEE BELOW

DATE: February 25, 2008

Approved

Date 2-27-08

COUNCIL DISTRICT: 3
SNI AREA: N/A

SUBJECT: APPROVAL OF A LAND ACQUISITION LOAN FOR THE KINGS CROSSING AFFORDABLE HOUSING PROJECT LOCATED AT 686 NORTH KING ROAD

RECOMMENDATION

It is recommended that the City Council:

1. Adopt a resolution approving a funding commitment of up to $5,315,000 of 20% Housing Funds to Charities Housing Development Corporation (CHDC), or its designee, for a land acquisition/permanent loan for the 94-unit Kings Crossing affordable family rental project located at 686 North King Road, to be made available to extremely low-income (ELI) and very low-income (VLI) households.

2. Adopt a resolution approving a conditional funding commitment of up to $5,250,700 of HOME Funds to CHDC, or its designee, for a predevelopment/construction/ permanent loan for the Kings Crossing project.

3. Adopt a resolution approving an exception to City policy to allow disbursement of funds which will create a combined loan-to-value ratio for the City loans in excess of 100%.

4. Adopt a resolution finding that the use of 20% Housing Funds for the Kings Crossing project is of benefit to the Redevelopment Project Areas in San José.

5. Approve the following Appropriation Ordinance and Funding Sources Resolution amendments in the HOME Investment Partnership Program Fund (Fund 445) for 2007-2008:

   a. Increase the Loans and Grants appropriation by $5,250,700.

   b. Increase the estimate for Grant Revenue in the amount of $5,250,700.

6. Approve the following Appropriation Ordinance and Funding Sources Resolution amendments in the Low- and Moderate-Income Housing Fund (Fund 443) for 2007-2008:

   a. Increase the Loans, Grants and Site Acquisition appropriation by $5,315,000.

   b. Increase the estimate for Earned Revenue in the amount of $5,315,000.

OUTCOME

The City Council's approval of the recommended actions will result in the development of 92 rental units targeted to households with incomes at or below 45% Area Median Income (AMI), including 10 units intended to house formerly homeless families, and two unrestricted manager's units.

BACKGROUND

On December 19, 2007, CHDC submitted an application for funding for the development of the project. The Kings Crossing permanent affordable housing development is a 1.22-acre portion of a new 25-acre, master-planned Newbury Park community located on the northeast corner of North King Road and Dobbin Drive that received PD rezoning approval on December 18, 2007. San José Transit Village LLC (SJTV) is the sponsor of the overall Newbury Park development, which will include between 800 and 1300 units. The Newbury Park neighborhood will be close to the future BART extension to San Jose, and will include neighborhood-serving commercial uses and a one-acre park.

The Kings Crossing development will be adjacent to the proposed New San José Family Shelter, for which a funding commitment has been agendized for the March 11, 2008 City Council meeting. A portion of the units in the Kings Crossing development will be available for families graduating from the shelter program. In turn, families residing in Kings Crossing will have available to them a range of services from Family Supportive Housing, Inc., the developer of the New Family Shelter.

Also proposed to be located in the new Newbury Park neighborhood is the Belovida at Newbury Park affordable senior rental housing development. A recommendation for a funding commitment for the Belovida project is a companion item on the March 18, 2008 City Council agenda. Attachment 2 to this memorandum shows the locations of all three of affordable housing proposals in the new Newbury Park neighborhood.

On June 6, 2006, the City Council approved a funding commitment to CHDC for up to $5,250,700 of HOME funds for the future development of a rental housing project affordable to ELI and VLI households. CHDC is now proposing to utilize that funding commitment, which staff is recommending be made conditional in connection with this project for the reasons enumerated in the Analysis section below.

ANALYSIS

The subject site is located at 686 N. King Road. The project will contain a combination of one-, two-, and three-bedroom units ranging in size from 540 to 1000 square feet. The project will include a variety of community spaces, including a multi-purpose room, staff and service-provider offices, community kitchen, fitness center, laundry facilities, and public restrooms.

The proposed income levels at various percentages of Area Median Income (AMI) by unit size are:

Income Level	% of AMI	1-Bdrm	2-Bdrm	3-Bdrm	TOTAL
ELI	15%	3	4	3	10
ELI	25%	7	7	5	19
ELI	30%	10	3	0	13
VLI	45%	12	17	21	50
Managers	Unrestricted	1	1	0	2
TOTALS		**33**	**32**	**29**	**94**

For at least the first ten years of the project's operation, 25 of the units restricted at 45% AMI will receive project-based Section 8 subsidies.

The recommended City funding package for this project includes a conditional commitment of federal HOME funds for development financing needed above and beyond the site acquisition loan being funded by the 20% Housing Fund. The required environmental clearance under the National Environmental Protection Act (NEPA) for the expenditure of federal HOME funds is in progress but has not been completed. For this reason, the recommended commitment of HOME funds is conditioned on the completion of the NEPA process and documentation requirements to the satisfaction of the U.S. Department of Housing and Urban Development.

The Kings Crossing permanent affordable rental development is estimated to cost $43,951,736. In addition to funding from the City, CHDC will seek financing from Wells Fargo Bank, the State of California's Multifamily Housing Program (MHP), the County of Santa Clara's Mental Health Services Act/Housing Plus program, the Housing Authority of the County of Santa Clara for the project-based Section 8 vouchers, the Federal Home Loan Bank's Affordable Housing Program (AHP), a federal McKinney Grant, tax credit equity, and deferred developer fee. The requested City loan commitment will promote the project's feasibility and maximize its chances to obtain additional financing.

The site of the proposed project is partially occupied by an industrial building. Because the building is vacant, there will be no relocation obligation incurred by the City as a result of the proposed loan.

The project sponsor has requested that the City reimburse some predevelopment expenses prior to the start of construction. While the combined loan-to-value (LTV) on the City's funding will be 100% at the close of the acquisition loan, the LTV could be as high as 140% prior to construction. Once the project is completed, the LTV for the City's loans should be at or below 100%.

Specific business terms will be approved by the Director of Housing pursuant to the Director's Delegation of Authority ordinance.

Unique Property Acquisition Situation

The site proposed for the Kings Crossing project is a portion of a larger 5.1-acre parcel plus a portion of 1.01-acre former railroad right of way. The proposed acquisition loan for the project will fund only a portion of the total land acquisition by SJTV. The Housing Department will not disburse acquisition loan proceeds without evidence that SJTV has the financial resources to pay for the balance of those larger parcels. The City's loan will be initially secured by a deed of trust on the entire 6.11 acres encompassed by these larger parcels.

A 55-year affordability restriction will be recorded on the entire 6.11-acre area in these larger parcels when it is acquired by SJTV. To reduce the risk associated with the City's acquisition loan and to provide it with greater flexibility in the event that it should ever be necessary to take title to the property, the affordability restriction recorded at the time of acquisition will require that 92 units be affordable to households at or below 120% of AMI.

Once the larger parcels are re-subdivided, the City's loan, deed of trust, and affordability restriction will be assigned to a new 1.22-acre parcel created for the Kings Crossing project. When the City's construction/permanent loan closes thereafter, a new 55-year affordability restriction will be recorded on the Kings Crossing parcel requiring the affordability mix spelled out in the chart above (i.e., 10, 19, 13 and 50 units at, respectively, 15%, 25%, 30% and 45% of AMI).

Redevelopment Project Area Findings

The recommended Kings Crossing project is not located within a Redevelopment Project Area. Thus, it is required that the City make a finding, on behalf of the Redevelopment Agency, that any such project which utilizes redevelopment funds is a benefit to redevelopment areas. Since housing for extremely low- and very low-income families and households is identified as vital to support the City's economic growth, much of which is planned to occur in Downtown and industrial redevelopment project areas, staff recommends that the City Council find the Kings Crossing project to be of benefit to those redevelopment project areas.

EVALUATION AND FOLLOW-UP

The City Council will later be able to track the project's construction status through the Housing Department's quarterly construction reporting.

POLICY ALTERNATIVES

The Housing Department considered the following alternative before recommending approval of a funding commitment for the Kings Crossing permanent affordable rental project:

Alternative #1: The City could decline CHDC's requested funding commitment.

Pros: The funds being requested could be used to finance other affordable housing projects and programs.

Cons: The provision of large numbers of ELI units, especially those targeted to formerly homeless families at 15% of AMI, may not be attained in other projects. The opportunity to co-locate permanent housing with the New San Jose Family Shelter and the services provided by the Shelter will not be realized. CHDC will lose its commitment of 25 project-based Section 8 vouchers which provide substantial operational income to the project. Without the City's financing commitment, the Kings Crossing project will not be feasible.

Reason for not recommending: The Kings Crossing project will help meet the demand for extremely low- and very low-income affordable family housing and will assist in fulfilling the City's goals for affordable housing and ending homelessness.

PUBLIC OUTREACH/INTEREST

☑ Criterion 1: Requires Council action on the use of public funds equal to $1 million or greater. (Required: Website Posting)

☐ Criterion 2: Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. (Required: E-mail and Website Posting)

☐ Criterion 3: Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. (Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)

This item meets Criterion 1 regarding expenditures of public funds exceeding $1 million. Therefore, this Council report will be posted to the City's website for the March 18, 2008 Council Agenda.

COORDINATION

Preparation of this report has been coordinated with the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This expenditure is consistent with the City's *2007-2012 Five-Year Housing Investment Plan,* adopted by City Council in June 2007, and with the City's *10-Year Strategy to End Homeless,* adopted by the City Council in September 2003. Furthermore, this expenditure partially

implements the 2007-2008 $10 million set-aside for the Mayor's *Housing the Homeless* initiative.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION: $10,565,700

2. COST ELEMENTS:

Site Acquisition/Permanent Financing	$5,315,000
Predevelopment/Construction/Permanent Financing	$5,250,700
TOTAL Project Funding	$10,565,700

3. SOURCE OF FUNDING: Low- and Moderate-Income Housing Fund (Fund 443)
HOME Investment Partnership Program Fund (Fund 445)

4. FISCAL IMPACT: No ongoing fiscal impact.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. For Contract	2007-2008 Adopted Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
443	0070	Loans, Grants and Site Acquisition	$39,000,000	$5,315,000	XI-48	N/A
445	0070	Loans and Grants	$5,022,500	$5,250,700	XI-39	10/16/07, 28143

CEQA

CEQA: Resolution No. 74196, File No. PDC07-015

LESLYE KRUTKO
Director of Housing

LARRY D. LISENBEE
Budget Director

I hereby certify that there will be available for appropriation in the designated funds and in the amounts as listed below in Fiscal Year 2007-2008 monies in excess of those heretofore appropriated there from:

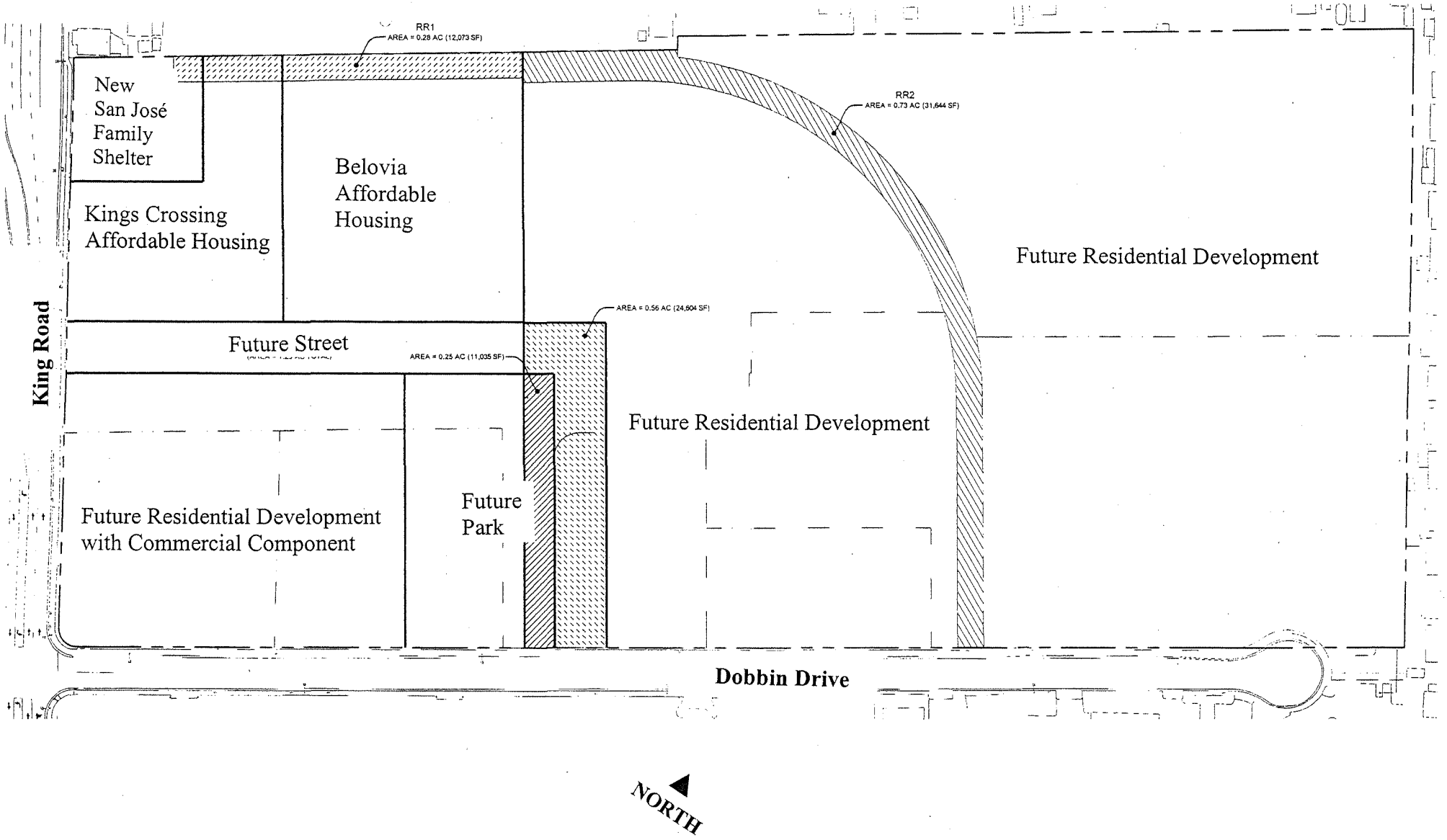
Low- and Moderate-Income Housing Fund	$5,315,000
HOME Investment Partnership Program Fund	$5,250,700

LARRY D. LISENBEE
Budget Director

Attachments

For questions, please contact Leslye Krutko, Director of Housing, at (408) 535-3851.

Attachment 1
Development Timeline

December 18, 2007	PD Rezoning approved
March 11, 2008	Anticipated City Council approval of a funding package for the project
March 24, 2008	Anticipated closing of City's site acquisition loan
March 2008	Anticipated application for MHP funding
May 2008	MHP funding awarded
May 2008	Anticipated application for McKinney Grant funding
October 2008	Anticipated application for AHP funding
December 2008	AHP funding awarded
December 2008	McKinney Grant funding awarded
January 2009	Anticipated start of construction
April 2010	Anticipated completion of construction

Attachment 2
Subdivision of Newbury Park