



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Corsiglia
Larry D. Lisenbee

SUBJECT: SEE BELOW

DATE: March 22, 2004

Approved

Date

COUNCIL DISTRICTS: 3 & 7
SNI AREA: Spartan/Keyes

**SUBJECT: FUNDING COMMITMENTS FROM THE HOUSING DEPARTMENT'S
2004 FIRST-ROUND NOTICE OF FUNDING AVAILABILITY (NOFA)**

RECOMMENDATION

It is recommended that the City Council:

1. Adopt a resolution approving funding commitments for a loan of up to \$5,671,900 and a conditional grant of up to \$2,300,000 to CORE Development Inc., or its designated affiliate entity, for the development of the 148-unit Art Ark Housing project, located at the northeast corner of South 5th and Keyes Streets, to be made affordable to extremely low- and very low-income households.
2. Adopt a resolution approving a funding commitment for a loan of up to \$8,378,250 to the County of Santa Clara and the Housing Authority of the County of Santa Clara, or their designated affiliate entity, for the development of the 130-unit Fairgrounds Family Housing project, located at 350 Tully Road, to be made affordable to low- and very low-income households.
3. Adopt a resolution approving a funding commitment for a loan of up to \$10,856,800 to the County of Santa Clara and ROEM Development Corporation, or their designated affiliate entity, for the development of the 170-unit Fairgrounds Family Apartments project, located at 350 Tully Road, to be made affordable to very low- and low-income households.
4. Adopt a resolution finding that the use of 20% Housing Funds for the Fairgrounds Family Housing project and the Fairgrounds Family Apartments project is of benefit to the Redevelopment Project Areas in San Jose.

5. Adopt amendments to the annual Funding Sources Resolution and the annual Appropriation Ordinance in the Multi-Source Housing Fund (Fund 448) to:
 - a. Increase Revenue Estimate by \$2,500,000.
 - b. Establish an Extremely Low-Income Housing appropriation to the Housing Department for \$2,500,000.

BACKGROUND

On February 24, 2004, the City Council approved a Project Selection System for the City's affordable housing production program. On February 25, 2004, the Housing Department issued a \$25 million Notice of Funding Availability (NOFA) to affordable housing developers, setting a March 17, 2004 deadline for making funding applications in response to the NOFA. The terms of the NOFA conformed to the approved Project Selection System.

In response to the NOFA, the Housing Department received three funding applications, as follows:

- February 26, 2004 – Application filed by CORE Development, Inc., for the development of Art Ark Housing, a proposed 148-unit housing development located at the northeast corner of South 5th and Keyes Streets.
- March 9, 2004 – Application filed by the County of Santa Clara and the Housing Authority of the County of Santa Clara for the development of Fairgrounds Family Housing, a proposed 130-unit housing development located at 350 Tully Road.
- March 11, 2004 – Application filed by ROEM Development Corporation and the County of Santa Clara for the development of Fairground Family Apartments, a proposed 170-unit housing development located at 350 Tully Road.

ANALYSIS

The three proposed developments were subjected to the criteria in the Project Selection System for the City's affordable housing development program, including the competitive scoring process. The Housing Department is recommending that all three projects be given a funding commitment by the City Council even though the total amount of funding requested (\$27,206,950) slightly exceeds the \$25 million announced in the NOFA.

Descriptions of each of the three development proposals are contained in the attachments to this memorandum.

Pursuant to the Delegation of Authority approved by the City Council on June 25, 2002, the City Manager will approve the specific business terms of the loans and the conditional grant.

Transfer of Affordability Restrictions

In September 1986, the Redevelopment Agency made a loan of 20% Funds to a developer for the acquisition and rehabilitation of a large Victorian house containing 15 studio apartments at the northwest corner of 7th and San Fernando Streets, known as the Dorchester Apartments. An adjoining single-family home is also a part of the project. In April 1995, the Housing Department acquired the property through a deed in lieu of foreclosure. The Department intends to sell the property without restrictions in order to maximize the number of options for a future San Jose State University-related use of the site.

State redevelopment law provides that affordability restrictions on rental housing recorded in conjunction with the expenditure of 20% Housing Funds may be removed only if they are transferred to another housing site. The affordability restrictions must be transferred to a project containing an equal number of affordable units at comparable levels of affordability and size at the new site as were required on the original site. State redevelopment law also provides that no additional 20% Housing Funds may be expended to develop the affordable units on the new site, though any loan repayment proceeds from the original site may be used.

The studio-apartment units in the Art Ark Housing project are comparable in terms of size and affordability with the 15 studio apartment units at Dorchester Apartments. Thus, 15 of the studio apartments affordable to ELI households that are being financed with the grant of Redevelopment Agency 20% Supplement funds will have affordability restrictions that are transferred from Dorchester Apartments.

The affordability restrictions on the single-family home at Dorchester will be transferred to a future project that includes larger units.

PUBLIC OUTREACH

The NOFA was posted on the Housing Department's website on February 25, 2004. Notice of the posting was transmitted to the Department's list of nonprofit and for-profit developers and other parties who have requested to be on the Department's developer-notification list.

See Attachments 1, 2 and 3, respectively, for information relevant to the Art Ark Housing, Fairgrounds Family Housing, and Fairgrounds Family Apartments proposals.

LEGAL ISSUES

See Attachments 1, 2 and 3, respectively, for information relevant to the Art Ark Housing, Fairgrounds Family Housing, and Fairgrounds Family Apartments proposals.

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COORDINATION

Preparation of this memorandum was coordinated with the Department of Planning, Building and Code Enforcement, the Redevelopment Agency and the Office of the City Attorney.

COST IMPLICATIONS

Funds for the proposed total of \$24,906,950 in loan commitments are available in the Housing Department Fiscal Year 2003-04 Low- and Moderate-Income Housing Fund Budget. Funds for the proposed \$2,500,000 increase in the revenue and appropriation in the Multi-Source Housing Fund (Fund 448) are available in the 20% Supplemental line item in the Redevelopment Agency's Fiscal Year 2003-04 Budget; of this total, \$2,300,000 will be disbursed to the Art Ark Housing project in the form of a conditional grant and the remaining \$200,000 will be allocated to a future NOFA round.

REDEVELOPMENT PROJECT AREA FINDINGS

The recommended Fairgrounds Family Housing and Fairgrounds Family Apartments projects are 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 rental housing for very low- and 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 Fairgrounds Family Housing and Fairgrounds Family Apartments projects to be of benefit to those redevelopment project areas.

CEQA

Attachment 1: Art Ark Housing, Mitigated Negative Declaration (PDC 03-029)

Attachment 2: Fairgrounds Family Housing, CEQA Resolution No. 71359 (PDC 02-040)

Attachment 3: Fairgrounds Family Apartments, CEQA Resolution No. 71359 (PDC 02-040)

LESLYE CORSIGLIA
Director of Housing

LARRY D. LISENBEE
Budget Director

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I hereby certify that there will be funds available for appropriation in the Multi-Source Housing Fund (Fund 448) in the fiscal year 2003-04 monies in excess of those heretofore appropriated there from, said excess being at least \$2,500,000.

LARRY D. LISENBEE

Budget Director

Attachments

- 1 – Art Ark Housing Project
- 2 – Fairgrounds Family Housing Project
- 3 – Fairgrounds Family Apartments Project
- 4 – Project location maps

ATTACHMENT 1 -- ART ARK HOUSING

Council District: 3

SNI Area: Spartan/Keyes

Location: Northeast corner of South 5th and Keyes Streets, within the Martha Gardens Specific Plan boundaries

Project Description: The proposal includes 148 rental units, of which 44 would be affordable to extremely low-income households (ELI), 102 would be affordable to very low-income (VLI) households, and two would be unrestricted managers' units. The development will consist of 133 studio apartments and 15 two-bedroom apartments. The proposed mix of affordability at various percentages of Area Median Income (AMI) by unit size and estimated rents is:

	<u>Studio</u>	<u>2BR</u>	<u>Total</u>
ELI (30% of AMI)	40 @ \$527	4 @ \$680	44
VLI (40% of AMI)	53 @ \$712	5 @ \$895	58
VLI (50% of AMI)	40 @ \$712	4 @ \$1,133	44
Unrestricted	--	2	2
TOTAL UNITS	133	15	148

The Martha Gardens Specific Plan, adopted by the City Council on December 16, 2003, envisions the creation of a neighborhood oriented to the arts community. To this end, the project sponsor intends to target the marketing of the units in the development to the arts community, and both the studio and two-bedroom units are designed to be attractive to artists as live-work space. However, there will not be a preference for artists over non-artists as potential tenants.

Sponsor: CORE Development, Inc., or its designated affiliate entity

Project Cost and Financing: The total estimated project cost is \$31,585,335. In addition to the proposed City loan of up to \$5,671,900 and the proposed City grant of up to \$2,300,000, the project sponsor intends to finance the development through a combination of 9% Low-Income Housing Tax Credits, a grant from the Federal Home Loan Bank's Affordable Housing Program (AHP), and loans from a conventional lender, the Santa Clara County Housing Trust, and the County of Santa Clara Office of Housing. The land purchase price of \$6,500,000 is supported by Cushman & Wakefield's appraised value of \$6,580,000.

Dispersion Policy Considerations: The Dispersion Policy, last amended by the City Council in 1997, implements the goal of balancing and promoting the economic integration of affordable housing throughout the community. The Dispersion Policy requires that the City Council consider four issues in approving City funding for affordable housing developments in

“impacted” census tracts (i.e., those in which over 50% of the households are low-income) and adjacent census tracts. The 1990 Census is the most recent available data upon which to determine whether census tracts are “impacted,” and in that year, the project site was located in an adjacent census tract.

- The Proposed Project's Proximity to Other City-Financed Affordable Housing Developments. The affordable housing projects in closest proximity to the subject site are Villa Torre I and II (a total of 191 units), which are located approximately 330 feet north of the subject site.
- The Project's Relationship to Council-Adopted Development Plans and Strategies. The subject development is consistent with and will contribute to the implementation of the Spartan/Keyes Neighborhood Improvement Plan, the Strong Neighborhoods Initiative Redevelopment Plan, and the Martha Gardens Specific Plan.
- The Project's Contribution to Neighborhood Improvement or Revitalization. In addition to implementing the plans noted above, the replacement of light industrial uses on the subject site with residential development will contribute to stabilizing the adjacent single-family neighborhood.
- The Existing Income Mix of the Census Tract in Which it is to Be Located. Data from the 2000 Census shows that 34% of households in the subject census tract were at or below 50% of Area Median Income (AMI) and that an additional 18% of households had incomes between 50% and 60% of AMI. This compares to a Citywide figure of 22% at or below 50% of AMI and 6% with incomes between 50% and 60% of AMI.

Public Outreach: The project sponsor hosted neighborhood meetings on the proposed development on February 13 and 27, 2003. The sponsor also had a booth at the Fifth Street Meltdown community fair held on August 9, 2003. Additionally, the PD rezoning process includes published notices of public hearings before the Planning Commission and City Council that neighboring residents may attend and provide testimony.

Relocation Issues: Most of the property to be acquired is owner-occupied, and no relocation benefits will be paid to that current owner. An estimated \$40,000 in relocation benefits will have been paid to two tenants at the time that the sponsor acquires the property, and this amount is included in the development budget.

Toxics: Phase I and Phase II Reports discovered soil contamination from underground tanks. The contaminated soil and tanks have been removed, and the Santa Clara Valley Water District is currently reviewing a plan for installing monitoring wells. This plan will need to be approved prior to the City's funding of property acquisition. The cost of the monitoring wells will be borne by the U.S. Environmental Protection Agency's Superfund program.

Legal Issues: A 55-year affordability restriction, limiting occupancy of the development to extremely low- and very low-income households, will be recorded on the title of the property at the time that the City funds acquisition. The affordability restriction may be subordinated to senior lenders, as allowed by State law. As noted in the main body of this report, 15 of the

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studio apartments affordable to ELI households that are being financed by a grant of Redevelopment Agency 20% Supplement funds will have affordable units that are transferred from Dorchester Apartments.

CEQA: Mitigated Negative Declaration (PDC 03-029)

Development Timeline

December 16, 2003	Planned Development Rezoning approved by the City Council
April 13, 2004	Anticipated City Council approval of a funding commitment
April 16, 2004	Deadline for 9% Tax Credit applications at California Tax Credit Allocation Committee
April 23, 2004	Anticipated closing on land-acquisition transaction
June 2004	Anticipated announcement of 9% Tax Credit allocations
October 2004	Anticipated start of construction
October 2006	Anticipated completion of construction

ATTACHMENT 2 – FAIRGROUNDS FAMILY HOUSING

Council District: 7

SNI Area: n/a

Location: 350 Tully Road (south side of Tully Road between South 10th Street and Senter Road), on a portion of the Santa Clara County Fairgrounds

Project Description: The proposal includes 130 rental units, of which 117 would be affordable to very low-income (VLI) households and 13 would be affordable to low-income (LI) households. The development will consist of 58 one-bedroom units, 59 two-bedroom units and 13 three-bedroom units. The proposed mix of affordability at various percentages of Area Median Income (AMI) by unit size and estimated rents is:

	<u>1BR</u>	<u>2BR</u>	<u>3BR</u>	<u>Total</u>
VLI (45% of AMI)	58 @ \$851	4 @ \$1,011	--	62
VLI (50% of AMI)	--	55 @ \$1,085	--	55
LI (60% of AMI)	--	--	13 @ \$1,325	13
TOTAL UNITS	58	59	13	130

The project will be constructed on a parking-podium structure to be shared with the Fairgrounds Family Apartments project (see Attachment 3). Each of the two projects will have its own condominium “unit(s),” and a single condominium “unit” jointly owned by the two projects will include the parking lot, the concrete podium over the parking, and such common facilities as the community room and swimming pool.

The housing project will be developed on a 75-year leasehold interest. The leasehold payments for the combined Fairground Family Housing/Apartments projects – negotiated with the County based on the projected cash flow that the projects will generate – translate into an equivalent fee title value of the property of \$5,052,581, or approximately \$1,075,000 per acre. This is substantially less than the market value of the site, which will be confirmed by an appraisal currently being prepared.

The PD Prezoning for the subject development proposal also included, in addition to the Fairgrounds Family Apartments project, a 200-unit senior apartment development and 60 ownership townhouse units. The senior apartments project is not proceeding at the present time. It is the developer’s intention that the townhouse project will be under construction by July 2005 so that it will be completed at approximately the same time as the two family rental developments.

The project site was annexed to the City in August 2003.

Sponsor: The County of Santa Clara and the Housing Authority of the County of Santa Clara, or their designated affiliate entity. The exact nature of the County's co-sponsorship of the project is anticipated to be determined by the Board of Supervisors' consideration on April 6, 2004, of an option-to-lease agreement.

Project Cost and Financing: The total estimated project cost is \$26,707,233. In addition to the proposed City loan of up to \$8,378,250, the project sponsor intends to finance the development through a combination of 4% Low-Income Housing Tax Credits and a loan from the California Housing Finance Agency (CalHFA).

Public Outreach: The project sponsor hosted a neighborhood meeting at Franklin Elementary School on the proposed development on May 23, 2002. Additionally, the PD rezoning process included published notices of public hearings before the Planning Commission and City Council that neighboring residents could attend and provide testimony.

Legal Issues: A deed of trust evidencing the City's loan will be recorded on the title of the leasehold estate. A 55-year affordability restriction, limiting occupancy of the development to very low- and low-income households, will be recorded on the underlying fee title of the property or the leasehold estate as permitted by State law. The affordability restrictions may be subordinated to senior lenders, as allowed by State law.

CEQA: CEQA Resolution No. 71359 (PDC 02-040)

Development Timeline

December 17, 2002	Planned Development Rezoning approved by the City Council
August 11, 2003	County recordation of annexation of site to the City of San Jose
April 6, 2004	Anticipated County Board of Supervisors' consideration of an option-to-lease agreement
April 9, 2004	Anticipated execution of the option-to-lease agreement by the County and the Housing Authority
April 13, 2004	Anticipated City Council approval of a funding commitment
May 5, 2004	Deadline for loan applications at CalHFA
July 8, 2004	Anticipated date of loan approvals by CalHFA Board
October 2004	Anticipated start of construction
July 2006	Anticipated completion of construction

ATTACHMENT 3 – FAIRGROUNDS FAMILY APARTMENTS

Council District: 7

SNI Area: n/a

Location: 350 Tully Road (south side of Tully Road between South 10th Street and Senter Road), on a portion of the Santa Clara County Fairgrounds

Project Description: The proposal includes 170 rental units, of which 153 would be affordable to very low-income (VLI) households and 16 would be affordable to low-income (LI) households. The development will consist of 58 one-bedroom units, 96 two-bedroom units and 16 three-bedroom units. The proposed mix of affordability at various percentages of Area Median Income (AMI) by unit size and estimated rents is:

	<u>1BR</u>	<u>2BR</u>	<u>3BR</u>	<u>Total</u>
VLI (45% of AMI)	58 @ \$851	18 @ \$1,011	--	76
VLI (50% of AMI)	--	77 @ \$1,085	--	77
LI (60% of AMI)	--	--	16 @ \$1,325	16
Unrestricted		1		1
TOTAL UNITS	58	96	16	170

The project will be constructed on a parking-podium structure to be shared with the Fairgrounds Family Housing project (see Attachment 2). Each of the two projects will have its own condominium “unit(s),” and a single condominium “unit” jointly owned by the two projects will include the parking lot, the concrete podium over the parking, and such common facilities as the community room and swimming pool.

The housing project will be developed on a 75-year leasehold interest. The leasehold payments for the combined Fairground Family Housing/Apartments projects – negotiated with the County based on the projected cash flow that the projects will generate – translate into an equivalent fee title value of the property of \$5,052,581, or approximately \$1,075,000 per acre. This is substantially less than the market value of the site, which will be confirmed by an appraisal currently being prepared.

The PD Rezoning for the subject development proposal also included, in addition to the Fairgrounds Family Housing project, a 200-unit senior apartment development and 60 ownership townhouse units. The senior apartments project is not proceeding at the present time. It is the developer’s intention that the townhouse project will be under construction by July 2005 so that it will be completed at approximately the same time as the two family rental developments.

The project site was annexed to the City in August 2003.

Sponsor: The County of Santa Clara and ROEM Development Corporation, or their designated affiliate entity. The exact nature of the County's co-sponsorship of the project is anticipated to be determined by the Board of Supervisors' consideration on April 6, 2004, of an option-to-lease agreement.

Project Cost and Financing: The total estimated project cost is \$43,732,870. In addition to the proposed City loan of up to \$10,856,800 the project sponsor intends to finance the development through a combination of 4% Low-Income Housing Tax Credits and a loan from the California Housing Finance Agency (CalHFA).

Public Outreach: The project sponsor hosted a neighborhood meeting at Franklin Elementary School on the proposed development on May 23, 2002. Additionally, the PD rezoning process included published notices of public hearings before the Planning Commission and City Council that neighboring residents could attend and provide testimony.

Legal Issues: A deed of trust evidencing the City's loan will be recorded on the title of the leasehold estate. A 55-year affordability restriction, limiting occupancy of the development to very low- and low-income households, will be recorded on the underlying fee title of the property or the leasehold estate as permitted by State law. The affordability restrictions may be subordinated to senior lenders, as allowed by State law.

CEQA: CEQA Resolution No. 71359 (PDC 02-040)

Development Timeline

December 17, 2002	Planned Development Rezoning approved by the City Council
August 11, 2003	County recordation of annexation of site to the City of San Jose
April 6, 2004	Anticipated County Board of Supervisors' consideration of an option-to-lease agreement
April 9, 2004	Anticipated execution of the option-to-lease agreement by the County and the Housing Authority
April 13, 2004	Anticipated City Council approval of a funding commitment
May 5, 2004	Deadline for loan applications at CalHFA
July 8, 2004	Anticipated date of loan approvals by CalHFA Board
October 2004	Anticipated start of construction
July 2006	Anticipated completion of construction