



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko

**SUBJECT: FUNDING COMMITMENT FOR
THE FAIRGROUNDS SENIOR
HOUSING PROJECT**

DATE: November 20, 2006

Approved

Ray Winer

Date

11/22/06

COUNCIL DISTRICT: 7
SNI AREA: N/A

RECOMMENDATION

It is recommended that the City Council adopt a resolution:

1. Approving a funding commitment for a loan of up to \$11,464,563 to the County of Santa Clara and the Housing Authority of the County of Santa Clara, a California nonprofit public benefit corporation, or their designated affiliate entity, for the development of the 198-unit Fairgrounds Senior Apartments project located at 350 Tully Street, to be made available to 196 extremely low-income (ELI) senior households with two unrestricted managers' units.
2. Finding that the use of 20% Housing Funds for the Fairgrounds Senior Apartments project is of benefit to the Redevelopment Project Areas in San Jose.

OUTCOME

Approval of the recommended funding commitment will result in the construction of 196 rental housing units affordable to extremely low-income (ELI) senior households.

BACKGROUND

On May 17, 2005, the City Council adopted a resolution approving changes to the Housing Department's Project Selection System for the City's affordable housing development program. One of the approved revisions was to include senior rental housing as eligible projects. On November 7, 2005, the Housing Department issued a \$20 million Notice of Funding Availability

(NOFA) to affordable housing developers. The terms of the NOFA conformed to the revised Project Selection System.

On January 20, 2006, the Housing Authority of the County of Santa Clara submitted a NOFA application for a loan in the amount \$11,464,563 for the development of the proposed 198-unit Fairground Senior Apartments project. Because the Housing Authority's Option-to-Lease Agreement with the County of Santa Clara – the underlying property owner – has not been executed, the County subsequently became a co-applicant to meet the NOFA requirement for site control.

ANALYSIS

The proposed site is located at 350 Tully Road on a portion of the County Fairgrounds. The Fairgrounds Senior Apartments is designed as one component of the 560-unit mixed-income Santa Clara County Fairgrounds residential project. Like the adjacent 300-unit Fairgrounds Family Apartments project currently under construction, the Fairgrounds Senior Apartments will be developed on a 75-year leasehold interest. Because the project does not include a land acquisition cost, the proposed per-unit subsidy of \$58,492 is much lower than it would otherwise be.

The project will consist of a single, four-story building of approximately 176,000 square feet constructed on a 53,000 square feet podium over 163 parking spaces. The development will also include a community room, a library and a computer room for the residents' general use and for computer classes. Other than two unrestricted managers' units, all units in the project will be one-bedroom and affordable to extremely low-income households (at or below 30% of Area Median Income [AMI]).

The total estimated project cost is \$40,191,000. In addition to the proposed City loan of \$11,464,563, the project sponsor intends to finance the development through a combination of tax-exempt bond in the form of a loan from the California Housing Finance Agency (CalHFA), tax credit equity, and a loan from the Santa Clara County Office of Affordable Housing.

The proposed project is not anticipated to compete with other affordable senior housing developments that have been financed by the City since rents in the vast majority of units in those projects are set at very low-income (50% of AMI) or low-income (60% of AMI). Seniors at or below extremely low-income (30% AMI) – the target population in the proposed Fairgrounds Senior Apartments project – would not qualify for those higher income units because of insufficient income.

The proposed development was reviewed pursuant to the criteria in the Project Selection System for the City's affordable housing development program. The project met all the criteria established in the NOFA, including the minimum score of 70 points. Accordingly, the Housing Department is recommending that this project be given a funding commitment by the City Council of up to \$11,464,563.

A 55-year affordability restriction, limiting occupancy of 196 units in the development to extremely-low income (ELI) households, will be recorded on the leasehold estate, as permitted by State law. The affordability restriction will be recorded concurrently with the closing of the City's construction/permanent loan for the project and may be subordinated to a senior lender, as allowed by State Law.

Pursuant to the Delegation of Authority ordinance approved by the City Council on June 25, 2002, the City Manager or his designee will approve the specific business terms of the loan following the City Council's approval of this proposed funding commitment.

Redevelopment Project Area Findings

The recommended 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 rental housing for extremely low-income 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 Senior Apartments project to be of benefit to those redevelopment project areas.

POLICY ALTERNATIVES

In reaching the recommendation spelled out above, the following alternative was also considered:

Alternative #1: Deny the requested funding commitment.

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

Cons: The proposed funding commitment complies with the published Notice of Funding Availability, including scoring in excess of the minimum 70 points necessary for approval. Additionally, there is continued demand for housing affordable to extremely low-income seniors.

Reason for not recommending: The proposed project will help meet the demand for housing affordable to extremely low-income seniors.

PUBLIC OUTREACH

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 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)**

- ❑ **Criteria 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)**

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.

The NOFA was posted on the Housing Department’s website on November 7, 2005. 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.

COORDINATION

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

FISCAL/POLICY ALIGNMENT

The proposed housing development implements adopted City Council policies: (a) to finance rental housing that is affordable to ELI senior households; and (b) to finance affordable housing with the lowest possible per-unit subsidy.

BUDGET REFERENCE

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	Adopted Budget Page	Last Budget Action (Date, Ord. No.)
443	0070	Housing Loans, Grants and Acquisitions	\$45,034,364	\$11,464,563	XI-46	6/27/06

CEQA

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



LESLEYE KRUTKO
Director of Housing

Attachment 1: Development Timeline
Attachment 2: Location Map

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

Attachment 1:
Development Timeline

December 17, 2002	Planned Development Rezoning approved by the City Council
August 11, 2003	County recordation of annexation of the site to the City of San Jose
December 5, 2006	Anticipated Board of Supervisors approval of the option-to-lease agreement between the County and the Housing Authority
December 12, 2006	Anticipated City Council approval of a funding commitment
February 2007	Loan application to be filed with CalHFA
April 2007	Anticipated date of loan approval by CalHFA
March 2008	Anticipated start of construction
January 2010	Anticipated completion of construction

Attachment 2:
Location Map

Fairgrounds Senior Apartments

