



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Leslye Krutko

**SUBJECT:** SEE BELOW

**DATE:** June 2, 2008

Approved

Date

6-5-08

**COUNCIL DISTRICT:** 3

**SNI AREA:** N/A

**SUBJECT: PREDEVELOPMENT LOAN INCREASE FOR THE NORTH FOURTH STREET FAMILY APARTMENTS PROJECT**

## RECOMMENDATION

It is recommended that the City Council adopt a resolution approving a \$400,000 increase in the predevelopment loan, for a total of \$500,000, to First Community Housing, or its designated affiliate, for the North Fourth Street Family Apartments project located at 1470 North Fourth Street to be made available to extremely low-income (ELI), very low-income (VLI) and low-income (LI) households.

## OUTCOME

The City Council's approval of the recommended actions will facilitate the construction of 100 rental housing units affordable to ELI, VLI and LI families.

## BACKGROUND

On March 6, 2007, the City Council approved a PD rezoning for the development of the 100-unit North Fourth Street Family Apartments project located at 1470 North Fourth Street. On March 20, 2007, the City Council approved a funding commitment of up to \$9,875,000 to First Community Housing, or its designated affiliate ("Sponsor"), for the development of the subject project to be made affordable to ELI, VLI and LI households.

On April 10, 2008, the Director of Housing approved a \$100,000 predevelopment loan to the Sponsor to partially fund pre-construction "soft costs." The Sponsor has requested an additional \$400,000 of predevelopment funding to keep the project moving forward.

A substantial amount of predevelopment "soft costs" are incurred by developers prior to the start of construction. Such costs include: fees for architectural, engineering and environmental review consultants to prepare drawings and documents necessary to file applications for land use entitlements and building permits; the application fees for those entitlements and permits;

appraisals; market studies; miscellaneous consultant fees; and the sponsor's overhead costs to administer all of the above.

Nonprofit affordable housing developers, of which First Community Housing is one, frequently cannot fund predevelopment expenses fully out of their own capitalized resources. As a result, they must borrow the necessary funding until a project's construction loans are closed and the predevelopment borrowing can be repaid.

### **ANALYSIS**

The City's Predevelopment Loan Program, with favorable interest rates, was approved in 1991 with a limit of \$100,000 that can be approved under the Director of Housing's Delegated Authority from the City Council. That loan limit has not been increased since 1991, while the costs of development consultants' services have increased substantially.

For the predevelopment expenses that are not covered by the City's loan limit, nonprofit sponsors must borrow at market interest rates from commercial lenders. This ultimately leads to higher overall developments costs than if more predevelopment funding was available at favorable rates from the City.

The Sponsor's request for up to a total of \$500,000 of predevelopment funding from the City is a reasonable amount given the fact that the overall predevelopment budget for the project is approximately \$1.9 million.

### **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 report available on-line at the Department's website: <http://www.sjhousing.org/report/quarter.html>.

### **POLICY ALTERNATIVES**

**Alternative #1:** *The City could deny First Community Housing's request for increased predevelopment funding.*

**Pros:** The funding not committed to this project could be spent on predevelopment loans for other affordable housing projects.

**Cons:** Borrowing all but \$100,000 of the project's predevelopment funding from commercial lenders will increase the project's overall costs, thereby increasing the amount of long-term City funding required.

**Reason for not recommending:** Short-term predevelopment funding at favorable interest rates will keep overall project costs at a minimum, thereby reducing the amount of total City funding needed for this affordable housing project.

**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 none of the criteria set forth above. Nonetheless, this Council report will be posted to the City's website for the June 24, 2008 Council Agenda.

**COORDINATION**

Preparation of this report was 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 the City Council in June 2007.

**COST SUMMARY/IMPLICATIONS**

- 1. AMOUNT OF RECOMMENDATION: \$400,000
  
- 2. COST ELEMENTS OF AGREEMENTS:  
Predevelopment Soft Costs \$400,000
  
- 3. SOURCE OF FUNDING: Low- and Moderate-Income Housing Fund (Fund 445)
  
- 4. FISCAL IMPACT: No ongoing fiscal impact.

HONORABLE MAYOR AND CITY COUNCIL

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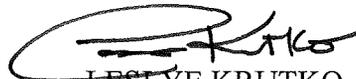
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**BUDGET REFERENCE**

Fund #	Appn. #	Appn. Name	2007-2008 Total Appn.	Amt. for Contract	2007-2008 Adopted Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
443	0070	Loans, Grants and Site Acquisitions	\$52,240,000	\$400,000	XI-48	3/18/08, 28215

**CEQA**

CEQA: Addendum to Final EIR for the North San Jose Area Development Policy, Resolution No. 72768, File No. PDC06-022.

  
LESLYE KRUTKO  
Director of Housing

Attachment 1 – Development Timeline

Attachment 2 – Location Map

For questions please contact LESLYE KRUTKO, DIRECTOR OF HOUSING,  
at 408-535-3855

**Attachment 1**  
**Development Timeline**

March 6, 2007	Planned Development Rezoning approved by City Council
March 20, 2007	City Funding Commitment approved by City Council
June 20, 2007	Funding from Multifamily Housing Program approved the California Department of Housing and Community Development
April 10, 2008	\$100,000 Predevelopment Loan approved by Director of Housing
June 24, 2008	Anticipated City Council approval of a \$400,000 Predevelopment Loan Increase
Fall 2008	Anticipated start of construction
Summer-Fall 2010	Anticipated completion of construction

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Attachment 2

Site Map

1470 North Fourth Street

