



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: June 2, 2008

6-5-08

COUNCIL DISTRICT: 3
SNI AREA: Rincon De Los Esteros

SUBJECT: APPROVAL OF A FUNDING COMMITMENT FOR THE 90 ARCHER STREET APARTMENTS PROJECT LOCATED AT 90 ARCHER STREET

RECOMMENDATION

It is recommended that the City Council adopt a resolution approving a funding commitment of up to \$3,940,000 of 20% Housing Funds to Charities Housing Development Corporation ("Charities Housing"), or its designated affiliate, for a land acquisition/construction/permanent loan for the development of the 42-unit 90 Archer Street Apartments project ("Project") that is located at 90 Archer Street, to be made available to extremely low-income (ELI) and very low-income (VLI) households.

OUTCOME

Approval of the recommended actions will result in the construction and development of 42 affordable rental units, with 41 units affordable to households with incomes at or below 50% Area Median Income (AMI) and one unrestricted managers' unit. Approval of these recommendations at the June 24, 2008, meeting is critical to maximize the likelihood that this project will receive an allocation of 9% Low Income Housing Tax Credits in its application to be submitted by the July 24, 2008 deadline.

BACKGROUND

On May 20, 2008, Charities Housing submitted a Notice of Funding Availability (NOFA) application for a loan in the amount of up to \$3,940,000 for the development of the Project.

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Project Description

The subject site is located at 90 Archer Street. The Project is designed to serve primarily as workforce housing for residents employed in entry-level employment. There will also be five units set aside for homeless, severely mentally ill clients of the County of Santa Clara's Mental Health Department (MHSA). These residents will receive support services from providers that partner with the County Mental Health Department.

The Project will contain 41 studio apartments and 1 two-bedroom unrestricted manager's unit. The studio apartments will be approximately 275 square feet and will include a full bathroom and kitchen. Due to the project's proximity to public transportation, Charities Housing will apply for a reduction in the number of required parking spaces. The parking will be provided in an at-grade parking garage. The residential portion of the development will be located in one, three-story building constructed on a podium above the parking garage. The development will also include a community room and kitchen for residents' general use, as well as two offices and a garden courtyard surrounded on three sides by the building. Ten units in the project will be affordable to extremely low-income (ELI) households at or below 30% AMI and 31 units will be affordable to very low-income (VLI) households at or below 50% AMI. Demand for units is expected to be strong given the Project's affordability and its proximity to public transportation and to an elementary school.

Summary of the Proposed Transaction

The total estimated Project cost is \$12,985,397. In addition to the proposed City loan of up to \$3,940,000, Charities intends to seek 9% Low-Income Tax Credits from the California Tax Credit Allocation Committee. Charities will seek a conventional construction loan of \$7,511,000. The permanent financing of the project will include the loan from the City of San José, a conventional permanent loan of \$284,000, a grant of \$500,000 from Mental Health Services Act (MHSA) funds through the Santa Clara County Office of Affordable Housing and limited partner equity of \$8,173,010 from the sale of the tax credits.

ANALYSIS

Staff reviewed the proposed Project pursuant to the criteria in the Project Selection System for the City's affordable housing development program, as published in the current Notice of Funding Availability (NOFA) on the Department's website.

The Project met all the criteria established in the NOFA, but did not meet the minimum score of 70 points due mostly to recent changes in market conditions and other subsidy availability. Staff has determined the project to be financially feasible.

The project possesses several attributes that are in alignment with the City's goals. It is located in North San José near light-rail, and a transit-oriented potential parking requirement reduction will help to lower construction costs and therefore support affordability. The project offers five special needs units to residents who meet MHSA guidelines and are at-risk for homelessness. All

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units, restricted to households between 30% AMI and 45% AMI, will offer deep affordability to residents who are expected to be employed in entry-level employment. In addition, the project already has its land use entitlements and should be ready to start construction sooner than would a typical project.

Accordingly, the Housing Department recommends that this Project be given a funding commitment by the City Council of up to \$3,940,000.

Closing of the City's loan will be subject to the City's receipt and approval of a third-party appraisal that supports the purchase price of the proposed site and of the value of the building as completed, as well as the receipt of a market study which substantiates the demand for the project's affordable units.

Specific business terms will be approved by the Director of Housing through the City's Delegation of Authority ordinance in Chapter 5.06 of the San José Municipal Code.

EVALUATION AND FOLLOW-UP

The Department posts quarterly reports on the status of its subsidized construction projects to its website, www.sjhousing.org. If approved, the 90 Archer Street Apartments project would be included in these reports.

POLICY ALTERNATIVES

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

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 Department's funding priorities and has been judged financially feasible. Additionally, there is continued strong demand for housing close to transit that is affordable to ELI and VLI working individuals and families.

Reason for not recommending: The proposed project will help to meet the demand for housing that is affordable to ELI and VLI working individuals and families and will help the City to fulfill its affordable housing goals.

PUBLIC OUTREACH/INTEREST

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

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- **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: Requires Council action on the use of public funds equal to \$1 million or greater. This Memorandum will be posted to the City's website for the June 24, 2008, Council Agenda.

COORDINATION

This report has been coordinated with the Office of the City Attorney and the Department of Planning, Building and Code Enforcement.

FISCAL/POLICY ALIGNMENT

This expenditure is consistent with the Housing Department's *Five-Year Investment Plan for Fiscal Years 2003/04-2008/09* in increasing the supply of affordable housing, and with the City's *Consolidated Plan, 2008-09* in providing households units for very low- and extremely low-income households.

COST SUMMARY/IMPLICATIONS

1. **COST OF PROJECT:**

<u>CONSTRUCTION USES</u>	<u>AMOUNT</u>
Property Acquisition & Entitlements	\$3,715,000
Hard (Construction) Costs	\$4,750,788
Soft (Financing & Other) Costs	\$4,519,609
TOTAL	\$12,985,397

2. **COST ELEMENTS OF CITY LOAN AMOUNT:**

<u>USES</u>	<u>AMOUNT</u>
Property Acquisition & Entitlements	\$3,700,000
Construction Costs	\$240,000
TOTAL	\$3,940,000

3. **SOURCE OF FUNDING:** Fund 443—Low- and Moderate-Income Housing Fund.

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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 & Site Acquisitions	\$52,240,000	\$3,940,000	XI-48	3/18/08, 28275

CEQA

CEQA: Addendum to North San José Environmental Report, Resolution No, 72768, File No. PDC06-085.


LESLYE KRUTKO
Director of Housing

For questions, please contact Leslye Krutko at 408-535-3851.

Attachments



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ATTACHMENT 1
Anticipated Project Timeline

Potential City Council Approval of HOME Funding Commitment	June 2008
Application to County of Santa Clara (MHSA)	June 2008
Application to TCAC for Low-Income Housing Tax Credits	July 2008
Award of TCAC Low-Income Housing Tax Credits	October 2008
Award of MHSA Funding	December 2008
Estimated Date of Construction Loan Closing	February 2009
Estimated Start of Construction	March 2009
Estimated Date of Construction Completion	May 2010
Estimated Conversion to Permanent Period	May 2011

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ATTACHMENT 2
Subject Site Map
90 Archer Street Apartments



