



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Leslye Krutko

**SUBJECT:** SEE BELOW

**DATE:** September 8, 2008

**APPROVED**

**DATE**

9-9-08

**COUNCIL DISTRICT:** 5

**SNI AREA:** Mayfair

**SUBJECT: APPROVAL OF A FUNDING COMMITMENT FOR THE McCREERY COURTYARDS APARTMENT PROJECT LOCATED AT THE SOUTHWEST CORNER OF ALUM ROCK AND McCREERY AVENUES**

## RECOMMENDATION

It is recommended that the City Council adopt a resolution approving a funding commitment of up to \$7,900,000 of 20% Housing Funds to Pacific West Communities ("PWC" or "Developer"), or its legal affiliate, for a land acquisition/construction/permanent loan for the development of the 93-unit McCreery Courtyards, an affordable multifamily rental project ("Project") located on McCreery Avenue South of Alum Rock Avenue, 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 93 affordable rental units, with 92 units affordable to households with incomes at or below 50% Area Median Income ("AMI") and one unrestricted managers' unit. Approval of this recommendation at the September 30, 2008, meeting is critical to enable the developer to meet the deadline for submittal of an application to the State Department of Housing and Community Development for Multifamily Housing Program funding.

## BACKGROUND

On March 24, 2008, PWC submitted a Notice of Funding Availability (NOFA) application for a loan in the amount of up to \$7,900,000 for the development of the Project. After considerable input from the Mayfair community, and in conjunction with the Departments of Housing and

Planning, Building and Code Enforcement, the project’s sponsor modified its project design, funding structure, and physical features to address the concerns that were raised.

Project Description

PWC proposes to develop a 93-unit family rental project on McCreery Avenue just South of Alum Rock Avenue. The five-story structure will have one level of parking below four stories of residential. The project will offer 46 apartments that will be affordable to extremely low-income families, 46 units affordable to very low-income families, and one unrestricted managers’ unit. The unit mix will include 55 two-bedroom units and 38 three-bedroom units (including a three-bedroom manager’s unit). Amenities will include a community room/lounge with a common kitchen, computer lab, laundry facilities, an exercise room, TV room and a children’s play structure. Each unit will be wired for internet access.

Projected Rental Unit Mix and Rents

<b># of Bedrooms</b>	<b># of Units</b>	<b>AMI Income Limit</b>	<b>Unit Sq. Ft.</b>	<b>Monthly Net Rent</b>
2BR/1BA	28	30%	904	\$664
2BR/1BA	27	50%	904	\$1142
3BR/2BA	18	30%	1,215	\$764
3BR/2BA	19	50%	1,215	\$1316
3BR/2BA	1	unrestricted	1,215	N/A

Summary of the Proposed Transaction

The total estimated Project cost is \$30,714,065. In addition to the proposed City acquisition, construction, and permanent loans of up to a total of \$7,900,000, PWC intends to seek a funding commitment from the State Multifamily Housing Program (“MHP”) as well as 4% Low-Income Tax Credits from the California Tax Credit Allocation Committee. PWC will seek a conventional construction loan of \$19,107,065. The permanent financing of the project will include the loan from City of San José, tax-exempt bond financing of \$5,625,000, the MHP loan of \$9,479,654, and limited partner equity of \$6,909,411 from the sale of low-income housing tax credits. In order to fill a funding gap, rather than asking the City for additional funds, PWC will defer \$800,000 of its developer fee. The City acquisition loan of \$6,750,000 will be repaid by a City construction/permanent loan of \$7,900,000, which is expected to occur in February 2009.

## ANALYSIS

### Strengths of the Proposed Project

The proposed project has several strengths making it appropriate for a City loan commitment.

The site is well-situated to provide access to services and public transportation for its residents. Demand for units is expected to be strong given the Project's affordability and its proximity to public transportation and to an elementary school.

The project possesses several attributes that are in alignment with the City's goals. As it was originally designed as a for-sale property, the development is composed entirely of two- and three-bedroom units—an unusual feature for affordable rental housing. The project will offer affordability to families with household incomes between 30% AMI and 50% AMI—incomes of \$28,650 to \$57,300 per year—who are expected to be employed in entry-level employment. The project will contain Green building features in accordance with the City's emphasis on supporting environmentally-sensitive development. Its proximity to transit along Alum Rock also supports sustainable development patterns in the City. In addition, the project has already made substantial progress towards obtaining its Planned Development Permit and should be ready to start construction sooner than would a typical project.

The Developer has created a development proposal that is responsive to the City's and future neighbors' desires. In accordance with neighborhood feedback, PWC increased the number of 30% AMI units over its original proposal. The Developer also worked extensively with the Housing Department in order to minimize the subsidy amount requested of the City by using the MHP program.

### Project Feasibility

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, and meets the minimum score of 70 points provided it is successful in obtaining MHP funding. Staff has determined the project to be financially feasible.

The City-commissioned third-party appraisal supports the required Loan-to-Value ratios for the requested loan amounts. Closing of the City's loan will be subject to the receipt of a market study which substantiates the demand for the project's affordable units.

Accordingly, the Housing Department recommends that this Project be given a funding commitment by the City Council of up to \$7,900,000.

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](http://www.sjhousing.org). If approved, the McCreery 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 large family housing close to transit that is affordable to ELI and VLI working households.

**Reason for not recommending:** The proposed project will help to meet the demand for family housing that is affordable to ELI and VLI households 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)**
- **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 September 30, 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 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	\$6,750,000
Hard (Construction) Costs	\$17,449,556
Soft (Financing & Other) Costs & Reserves	\$6,514,509
<b>TOTAL</b>	<b>\$30,714,065</b>

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

<u>USES</u>	<u>AMOUNT</u>
Property Acquisition	\$6,750,000
Construction Costs	\$1,150,000
<b>TOTAL</b>	<b>\$7,900,000</b>

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

4. **FISCAL IMPACT:** No ongoing fiscal impact.

**BUDGET REFERENCE**

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. For Contract	2008-2009 Adopted Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
443	0070	Loans, Grants & Site Acquisitions	\$90,000,000	\$7,900,000	XI-53	6/24/08, 28349

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**CEQA**

Mitigated Negative Declaration, and addenda thereto, file number PDC04-088

  
LESEYE KRUTKO  
Director of Housing

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

Attachments



**ATTACHMENT 1**  
**Anticipated Project Timeline**

Application to State MHP	October 2008
Award of MHP Funding	December 2008
Apply to CDLAC	December 2008
Notification of Award from CDLAC	February 2009
Estimated Date of Construction Loan Closing	May 2009
Estimated Start of Construction	July 2009
Estimated Date of Construction Completion	July 2010
Estimated Conversion to Permanent Period	July 2011

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**ATTACHMENT 2**  
**Subject Site Map**  
**McCreery Courtyards**

