



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: November 25, 2008

Approved

Date

12-2-08

COUNCIL DISTRICT: 3

SNI AREA: Rincon De Los Esteros

SUBJECT: APPROVAL OF A FUNDING COMMITMENT FOR SITE ACQUISITION FOR THE FIRST AND ROSEMARY FAMILY APARTMENTS PROJECT LOCATED AT THE SOUTHEAST CORNER OF ROSEMARY AND NORTH FIRST STREETS

RECOMMENDATION

It is recommended that the City Council adopt a resolution approving a funding commitment for site acquisition of up to \$6,300,000 of 20% Housing Funds to the ROEM Development Corporation ("ROEM"), or its legal affiliate, for a land acquisition loan for the development of the 184-unit First and Rosemary Family Apartments, an affordable multifamily rental project ("Project") located at the Southeast corner of Rosemary and North First Streets, to be made available to extremely low-income (ELI), very low-income (VLI), and low-income (LI) households.

OUTCOME

Approval of the recommended action will initiate the development process by enabling ROEM to acquire the site in order to develop 184 affordable rental units, with 182 units affordable to households with incomes with incomes between 30% and 60% of Area Median Income ("AMI") and two unrestricted managers' units.

BACKGROUND

On June 26, 2008, ROEM submitted a Notice of Funding Availability (NOFA) application for an acquisition/construction/permanent loan in the amount of up to \$23,470,000 for the development of the project.

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On August 26, 2008, the City Council approved and passed for publication Ordinance No. 28391 rezoning the subject site from CN Commercial Neighborhood, CG Commercial General, and LI Light Industrial Zoning Districts to A (PD) Planned Development Zoning District to allow up to 290 multi-family residential units, including 106 affordable senior and 184 affordable multi-family units, on a 4.045 gross acre site.

The Department has submitted a separate funding request to the City Council for ROEM's First and Rosemary Senior Project. The Senior project is located directly West of the proposed Family project.

Because of current financial market conditions, the Housing Department is carefully managing its cash position. At this time, the Department is maximizing the use of its limited funds and is seeking permission only for acquisition funding. As liquidity returns to the credit markets, the Housing Department will return to the City Council to seek approval of a construction/permanent funding commitment for the project in 2009.

Project Description

ROEM proposes to develop a 184-unit family rental project on Rosemary Street just East of North First Street. 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 (ELI) families at or below 30% AMI, 102 units affordable to very low-income (VLI) families at or below 45% and 50% (Area Median Income) AMI, 34 units affordable to lower-income (LI) families at or below 60% AMI, and two unrestricted managers' units. The unit mix will include 38 one-bedroom/one-bathroom units, 110 two-bedroom/two-bathroom units (including 2 two-bedroom manager's unit), and 36 three-bedroom/two-bathroom units. Amenities will include a community room/lounge, laundry facilities, an exercise room, and a swimming pool. Each unit will be wired for Internet access.

Summary of Proposed Transaction

The total estimated Project cost is \$60,188,682. In addition to the proposed City acquisition loan of up to a total of \$6,300,000, and the seller carry-back loan of at least \$2,090,621, ROEM intends to seek a bond allocation from the California Debt Limit Allocation Committee ("CDLAC") as well as 4% Low-Income Tax Credits from the California Tax Credit Allocation Committee ("TCAC"). If approved by the City Council in a separate action in the future, the permanent financing of the project is expected to include a total loan from City of San José of up to \$23,470,000. (This figure includes the requested site acquisition funding recommended in this memorandum). External funding sources include tax-exempt bond financing of \$19,999,352, a Federal Home Loan Bank Affordable Housing Program ("AHP") loan of \$910,000, lease-up income of \$992,006, and limited partner equity of \$14,306,961 from the sale of the low-income housing tax credits.

In order to fill a funding gap, rather than asking the City for additional funds, ROEM will defer \$510,363 of its developer fee. ROEM will seek additional financing from the State Infill

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Infrastructure Grant Program, authorized under Proposition 1C, to further subsidize the project and increase the City's leveraging of other funds.

After the priority payment of the deferred developer fee, the City will share 70% of net cash flow in repayment of its loan. The City acquisition loan of \$6,300,000 will be repaid by a City construction/permanent loan of \$23,470,000, upon approval from the City Council at a future date.

As agreed to during Council approval of the PD Zoning, the project will contribute approximately \$224,000 from soft costs permits and fees to purchase the park site located at the Northeast corner of Rosemary Street and Kerley Drive.

ANALYSIS

Strengths of the Proposed Project

The project possesses several attributes that are in alignment with the City's goals.

Most importantly, this project is located approximately 800 feet south from the Gish light rail stop along North First Street, and its transit orientation supports sustainable development patterns in the City. Its location also offers pedestrian access to neighborhood convenience shopping, and easy auto access to Highways 880, 101, and 87.

As it is located in North San José, an area that is likely to experience significant residential growth in the coming years, the project will help to promote economic integration. It will also help the City to meet its legal obligation, required under State Redevelopment Law, to ensure that 1,600 affordable units will be created in North San José as part of its First Phase of 8,000 residential units that are authorized under the area's development plan.

In addition, consistent with the project's planning approvals, the project will contribute to the purchase of a 0.90-acre park that is located Northeast of the adjacent family project at the corner of Rosemary Street and Kerley Drive. The Redevelopment Agency and the Parks, Recreation and Neighborhood Services Department will also contribute towards the park purchase, which is expected to occur in 2009.

Furthermore, the proposed development would facilitate the reuse of a valuable underutilized site that is located on the Guadalupe Corridor light rail line. In conjunction with the adjacent First and Rosemary Seniors Project, this project is expected help revitalize the immediate area and help to manifest the pedestrian-friendly development envisioned for this area.

Seventy-nine percent of the units in the project will be 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 60% AMI—incomes of \$25,470 to \$68,760 per year, depending on family size—who are expected to be employed in entry-level employment. The

project site is located in close proximity to the airport and the major employment center of North San José.

The project will also contain Green building features in accordance with the City's emphasis on supporting environmentally-sensitive development. This project will be one of ROEM's first 100% non-smoking projects. ROEM will also provide Eco-passes from the Valley Transportation Authority to its residents.

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. Although the project did not meet the 70-point threshold score for the City's NOFA, Housing Department staff is currently updating the NOFA criteria to better fit with current market conditions and availability of other subsidy funding.

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 and a junior high school. Feasibility will be further enhanced if ROEM is successful in its Proposition 1C application to the State Department of Housing and Community Development.

Considering all factors, staff has determined the project to be financially feasible. Given that it is feasible, it is responsive to the City's and future neighbors' desires, and it meets many of the policy objectives of the Housing Department as stated above, staff recommends the project for funding.

Accordingly, the Housing Department recommends that this Project be given an acquisition funding commitment by the City Council of up to \$6,300,000. 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

If this request is approved, Housing Department staff will return to the City Council with a construction/permanent funding request in 2009, once financial resources allow, enabling the project to proceed with construction. The Department posts quarterly reports on the status of its subsidized construction projects to its website, www.sjhousing.org. If approved, the First and Rosemary Family Apartment's 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 meets many of 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, VLI and LI working households.

Reason for not recommending: The proposed project will help to meet the demand for transit-oriented housing that is affordable to ELI, VLI, and LI working individuals and will help the City to fulfill its affordable housing goals. The project's location in North San José will also help to meet the need for 1,600 affordable housing units that will be required in the First Phase of 8,000 residential housing units to be built under area's development policy.

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 December 9, 2008, Council Agenda.

Notices for the Planning Commission and City Council public hearings were distributed to the owners and occupants of all properties located within 1,000 feet of the project site. An on-site sign was placed on the site to provide information on the proposed development. The Planning Department website contains information regarding development applications, staff reports, and hearing schedules. The website contains current information regarding the status of rezoning and development permit applications. Staff has also been available to discuss the project with members of the public.

COORDINATION

This report has been coordinated with the Office of the City Attorney.

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>
Site Acquisition	\$8,435,448
Hard (Construction) Costs	\$38,543,401
Soft (Financing & Other) Costs & Reserves	\$13,209,833
TOTAL	\$60,188,682

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

<u>USES</u>	<u>AMOUNT</u>
Site Acquisition	\$6,300,000
TOTAL	\$6,300,000

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	\$6,300,000	XI-53	6/24/08, 28349

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CEQA

CEQA: EIR resolution 72768 adopted June 21, 2005, file number PDC07-101.



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

Application submitted the Federal Home Loan Bank's AHP Program	October 2008
Anticipated Award of FHLB AHP Funding	December 2008
Estimated City Council approval of Construction/Permanent Funding	March 2009
Apply to California Debt Limit Allocation Committee (CDLAC)	March 2009
Notification of Award from CDLAC	May 2009
Estimated Date of Construction Loan Closing	August 2009
Estimated Start of Construction	August 2009
Estimated Date of Construction Completion	February 2010
Estimated Conversion to Permanent Period	January 2011

