



# 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:** None

**SUBJECT: APPROVAL OF A FUNDING COMMITMENT FOR SITE ACQUISITION FOR THE FIRST AND ROSEMARY SENIOR 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 \$3,700,000 from the 20-percent Low and Moderate Income Housing Fund to the ROEM Corporation ("ROEM"), or its legal affiliate, for a land acquisition loan for the development of the 106-unit First and Rosemary Senior Apartments, an affordable multifamily rental project ("Project") on a 1.06-gross acre site located at the southeast corner of Rosemary and North First Streets, to be made available to extremely low-income ("ELI") and very low-income ("VLI") households.

## OUTCOME

The outcome of the recommended action would enable ROEM to begin the development process by acquiring a 1.06-gross acre site in order to develop 106 rental units, with 105 units affordable to households with incomes between 30% and 50% of Area Median Income ("AMI") and one unrestricted manager's unit.

## BACKGROUND

On June 26, 2008, ROEM submitted a Notice of Funding Availability (NOFA) application for an acquisition, construction, and permanent loan in the amount of \$29,841,711 for development of an affordable senior housing development containing 106 units on a 1.06 gross-acre site located at the Southeast corner of N. First Street and Rosemary Street.

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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 Family Project. The Family project is located directly East of the proposed Senior 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

The senior housing development consists of a U-shaped podium cluster building located at the southeast corner of N. First Street and Rosemary Street. The building contains a total of 106 one-bedroom units, including a one-bedroom manager's unit, located on four levels with interior corridors. The project will offer: 27 apartments that will be affordable to extremely low-income (ELI) families at or below 30% Area Median Income (AMI); 57 units affordable to very low-income (VLI) families at or below 45%; 21 units affordable to VLI families at or below 50% AMI; and, one unrestricted managers' unit. All units will offer one bedroom and one bathroom and 581 square feet of living space.

A total of 75 parking spaces would be located within a partially-depressed parking podium beneath the building. The development takes pedestrian and vehicular access from Rosemary Street. South-facing common open space would be located within the "U" formed by the building. The common open space engages a landscaped paseo adjacent to the southern boundary of the site. Amenities include a community room with kitchen and library; computer room; open courtyard with landscaping, seating, and fountains; open lobby with seating, and a leasing office.

#### Summary of Proposed Transaction

The total estimated project cost is \$29,309,538. In addition to the proposed City acquisition loan of \$3,700,000, ROEM intends to apply for 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). The permanent financing for the development as proposed would consist of: (1) a loan from the City of San Jose for \$12,165,000, which includes the City acquisition loan amount; (2) tax-exempt bond financing of \$8,199,683 allocated by CDLAC; (3) limited partner equity of \$6,714,963 million from the sale of low-income housing tax credits allocated by TCAC; (4) a Federal Home Loan Bank Affordable Housing Program (AHP) grant of \$520,000; and, (5) lease-up income of \$443,510.

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ROEM will contribute \$1,266,383 to the project by deferring its developer fee for approximately six years. ROEM will also seek additional financing from the State Infill 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 \$3,700,000 will be repaid by a City construction/permanent loan of \$12,165,000, 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 \$132,000 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. The project design includes the placement of stoops and stairs oriented to the street, which will help to manifest the pedestrian-friendly development envisioned for this area.

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

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100% non-smoking project. 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.

Demand for units is expected to be strong given the Project's affordability and its proximity to public transportation. 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 \$3,700,000. 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, to enable the project to proceed with construction. The Housing 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 First and Rosemary Senior Apartments would be included in these reports.

### POLICY ALTERNATIVES

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

**Alternative #1:** *Deny the requested funding commitment for a land acquisition loan to develop a senior apartment complex containing 106 affordable units.*

**Pros:** The requested funds 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 senior housing close to transit that is affordable to ELI and VLI households.

**Reason for not recommending:** The proposed project will help to meet the demand for transit-oriented housing that is affordable to ELI and VLI 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 16, 2008, Council Agenda.

On April 14, 2008, the applicant held a community meeting that was noticed to all owners and occupants within 1,000 feet of the subject site. Five community members, Planning staff, and the District 3 Council office attended the meeting. 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 about the proposed development. The Planning Department website contains information regarding the North San José Area, including the Policy, development applications, staff reports, and hearing schedules. The website contains current information regarding the status of rezoning applications. Staff has also been available to discuss the project with members of the public.

**COORDINATION**

Preparation of this memorandum was 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	\$5,194,000
Hard (Construction) Costs	\$16,171,521
Soft (Financing & Other) Costs & Reserves	\$7,944,017
<b>TOTAL</b>	<b>\$29,309,538</b>

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

<u>USES</u>	<u>AMOUNT</u>
Site Acquisition	\$3,700,000
<b>TOTAL</b>	<b>\$3,700,000</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	\$3,700,000	XI-53	6/24/08, 28349

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**CEQA**

EIR Resolution No. 72768 and Addendum thereto, PDC07-101.

  
LESLEYE KRUTKO  
Director of Housing

For questions please contact Leslye Krutko, Director, 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

**ATTACHMENT 2**  
**Subject Site Map**  
**First and Rosemary Senior Apartments**

