



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Leslye Krutko

**SUBJECT:** SEE BELOW

**DATE:** February 17, 2009

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2-19-09

**COUNCIL DISTRICT:** 3  
**SNI AREA:** N/A

**SUBJECT: CHANGE IN THE UNIT AFFORDABILITY MIX FOR THE 90 ARCHER STREET APARTMENTS**

## RECOMMENDATION

It is recommended that the City Council adopt a resolution approving a change in the affordability mix of the 90 Archer Street Apartments, a 42-unit rental housing development to be constructed at 90 Archer Street, to be made available to extremely low-income ("ELI") and very low-income ("VLI") households, with 41 units affordable to households with incomes at or below 45% Area Median Income (AMI) and one unrestricted managers' unit.

## OUTCOME

Approval of the recommended action will result in a decrease in the restricted household income level for five units in the project from 40% AMI to 30% AMI and an increase in the restricted household income level for 10 units in the project from 40% AMI to 45% AMI. This action will improve the financial viability of the project.

## BACKGROUND

On December 9, 2008, the City Council approved a funding commitment of up to \$4,580,000 to Charities Housing Development Corporation ("Charities Housing") or its designated affiliate, for a land acquisition/predevelopment/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 ELI and VLI households. The development will consist of 41 studio apartments and one two-bedroom unrestricted manager's unit. The Project is designed to serve

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primarily as workforce housing for residents employed in low-wage occupations and is located in the Rincon de Los Esteros-South Project Area.

At the time of City Council approval, the project was proposed to contain 11 units affordable to ELI households at or below 30% AMI, 15 units for households at or below 35% AMI, and 15 units for households at or below 40% AMI. Five of the 30% units were set aside for homeless, severely mentally ill clients of the County of Santa Clara's Mental Health Department ("MHSA").

Charities Housing has requested a change in the unit affordability levels for the Project. The chart below summarizes the current and proposed restricted affordability levels:

<b>Affordability Restriction Levels</b>	<b>Current Number of Units</b>	<b>Proposed Number of Units</b>
≤ 30% AMI	11	16
≤ 35% AMI	15	
≤ 40% AMI	15	
≤ 45% AMI		25
Manager's Unit	1 unrestricted unit	1 unrestricted unit
TOTAL	42	42

## **ANALYSIS**

There are several benefits that this proposal offers to the project. The number of ELI units will increase by five units and the number of MHSA units will increase from five to six. The broader unit affordability range of 30-45% AMI will increase the pool of potential tenants qualified to reside in the project and will streamline the property management operations. Notwithstanding the City's affordability restriction at 45% AMI, Charities intends to serve households at or below 40% AMI. This will allow Charities greater flexibility to request small rental increases in the future, subject to market conditions, which will help project operations and cash flow. All units will continue to offer deep affordability to residents who are expected to be employed in low-wage jobs in San José.

As consideration for increasing 10 units from 40% AMI to 45% AMI, the developer has decreased five units from 40% AMI to 30% AMI and added one additional MHSA unit.

Accordingly, the Housing Department recommends that the proposed change in affordability restriction levels for this Project be approved by the City Council at the March 3<sup>rd</sup> meeting.

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Specific changes to any 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 changes in affordability restriction levels for 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 change in affordability restriction levels.*

**Pros:** No changes to existing City loan documents would have to be made.

**Cons:** Fewer ELI households in need of affordable housing will be assisted. The developer will have no ability, beyond future increases in AMIs, to increase rents, depending on market conditions, which will help project operations and cash flow.

**Reason for not recommending:** The increased number of ELI and MHSA units will help to meet the demand for transit-oriented workforce and special needs housing in San José 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)**

None of these criteria apply to the requested change in Project's unit affordability mix. Nevertheless, Charities has conducted a significant amount of outreach to the neighborhood in coordination with the City Council District 3 Office. Charities Housing presented project information at three neighborhood meetings in August and September 2008, and staffed a table

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at the Rosemary Gardens Neighborhood Association annual picnic in September 2008. This Memorandum will be posted to the City's website for the February 24, 2009, Council Agenda

### **COORDINATION**

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

### **FISCAL/POLICY ALIGNMENT**

This recommendation is consistent with the Housing Department's *Five-Year Investment Plan for Fiscal Years 2007/08-2011/12* 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**

The recommended action will have no cost implications to the City of San José.

### **CEQA**

CEQA: Resolution No. 72768 and Addendum thereto, File No. PDC06-085.

  
LESLYE KRUTKO  
Director of Housing

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