



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko

**SUBJECT: TARGETING CHANGE FOR
THE CURTNER STUDIOS
AFFORDABLE HOUSING PROJECT**

DATE: July 20, 2009

Approved

Leslye Krutko

Date

7/21/09

COUNCIL DISTRICT: 6
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution by the City Council approving a change in affordability targeting to allow 12 units restricted to households with incomes no greater than 80% of Area Median Income (“AMI”), and 18 units restricted to households with incomes no greater than 60% AMI, to become restricted at 30% AMI in the existing Curtner Studios (formerly known as Curtner Gardens Inn) located at the northwest corner of Curtner and Canoas Gardens Avenues.

OUTCOME

The City Council’s approval of this request would deepen the affordability mix in the existing 179-unit development sponsored by First Community Housing (FCH) by increasing the total number of 30% AMI units from 95 to 125. It would also provide legal consideration for a separate City Council action to increase the City’s gap financing for FCH’s 1460 North Fourth Street affordable housing project, which contains 100 units and is located at the east side of North Fourth Street, approximately 600 feet northerly of Gish Road.

BACKGROUND

On October 1, 1991, the City Council adopted Ordinance No. 23925 to rezone the subject site to A (PD) Planned Development to allow development of 180 SRO Residential Hotel units on a 0.88 gross acre site at 701 Curtner Avenue, located at the northwest corner of Curtner and Canoas Garden Avenues. On May 1, 1992, the Director of Planning issued a Planned Development Permit to allow construction of 180 SRO Residential Hotel units on the subject site.

On August 24, 1993, the City Council approved a construction loan in the amount of \$2,648,302 for the development of 179 affordable housing studios. Construction of the original development was completed in 1994. On January 13, 1995, Curtner Gardens Associates, a general partnership

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composed of JSM Enterprises and Green Valley Corporation (“the partnership”), executed a promissory note evidencing a permanent loan in the amount of \$2,767,970.92.

The project had previously experienced higher-than-normal vacancy rates since it was completed and occupied. On-street parking resulting from tenants seeking to avoid a monthly parking fee had also adversely affected parking availability for the surrounding neighborhood. In 2006, the partnership agreed to sell the development to FCH for a purchase price of \$12,600,000.

On December 5, 2006, FCH requested that the Housing Department provide a gap loan of HOME and 20% Housing funds in the amount of \$4,942,845 as part of its financing of the \$21,117,606 acquisition/rehabilitation of the project. As consideration for that loan, FCH agreed to modify the project’s rent-restricted income targeting to achieve greater affordability by converting 36 unrestricted units to affordable units. FCH also committed to rehabilitate the building with substantial green building features to increase energy efficiency, water conservation, and indoor air quality in the existing building. The project was renamed Curtner Studios at that time.

FCH’s rehabilitation was completed in December 2008. Due to the provision of free parking, neighborhood complaints about parking reportedly improved immediately. The property has integrated the many green features as planned and the units are occupied.

FCH previously converted two existing residential units into case managers’ offices resulting in 178 affordable studios and one unrestricted manager’s unit. FCH received County of Santa Clara Proposition 63 Mental Health Services Act housing funds to provide case management and rental assistance payments for persons with chronic mental illness in 27 of the 179 units.

ANALYSIS

Existing and Proposed Affordability Mix

The existing and proposed affordability mixes of units in the FCH complex are provided below:

	Current Affordability Mix	Proposed Affordability Mix	Change in Number of Units	Proposed Affordability % of Total
30% of AMI	95	125	+30	70%
50% of AMI	40	40	0	22%
60% of AMI	31	13	-18	7%
80% of AMI	12	0	-12	0%
Unrestricted	1	1	0	<1%
TOTAL	179	179	0	100%

The proposed affordability mix in the complex deepens the affordability by providing 30 more 30% AMI units for residents earning less than \$22,300 per year. A total of 12 units at 80% AMI,

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and 18 units at 60% AMI would be converted to 30% AMI. As a result, a total of 70% of the units in the 179-unit complex would be restricted to 30% AMI.

While this is an increase in the number of units at 30% AMI, the Housing Department has determined that it remains a manageable number. One-fifth of those residents have case management services through the MSHA program. These services help to ensure residents' stability and behavior as responsible tenants. All tenants are held to performance standards as defined in their leases. Further, the property is ably managed by the John Stewart Company. John Stewart manages a large portfolio of affordable and market-rate apartments and is the largest private manager of units in California that house extremely low-income tenants.

Relationship to 1460 North Fourth Street Property

There is a separate recommendation pending to the City Council regarding the need to increase the City's construction/permanent loan for 1460 North Fourth Street project. While Curtner Studios is a separate property under a different ownership entity from that of 1460 North Fourth Street (formerly 1470 North Fourth Street), FCH is the developer for both and is the General Partner of both ownership legal entities. Housing Department staff negotiated the change in restricted affordability on the Curtner Studios project in return for considering the increased gap loan to North Fourth Street. Thus, this action is considered to offer the legal consideration for the North Fourth Street request.

POLICY ALTERNATIVES

The Housing Department considered the following alternative before recommending approval of a change in targeting for Curtner Studios:

Alternative #1: Deny the requested change in targeting.

Pros: Curtner Studios' targeting would remain the same as now recorded, and theoretically would be able to accommodate residents with a broader range of incomes in the property.

Cons: Curtner Studios is already serving households at the 30% AMI income level for the units in question, so the profile of the project's tenants would remain unchanged. Other financing partners to the project already have underwritten their financing to rents corresponding to the 30% AMI restrictions for the 30 units in question. If the City were to forego the opportunity to take advantage of this situation by deepening the 30 units' recorded affordability restrictions, rents on those units could be raised in the event of a refinancing of the property. The opportunity to secure long-term affordability for extremely low-income residents at no cost to this project would be wasted. Further, the change in targeting would not provide legal consideration for increased City gap financing for the 1460 North Fourth Street apartments project.

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Reason for not recommending: Long-term restrictions at 30% AMI would lock in affordability for 55 years for hard-to-serve renters in San José. In addition, this change will provide legal consideration for FCH's 1460 North Fourth Street apartments' additional gap funding request.

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 requesting a targeting change on Curtner Studios does not meet any of the above criteria. This Council Memorandum will be posted to the City's website for the August 11, 2009 Council Agenda.

COORDINATION

Preparation of this memorandum has been coordinated with the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This action 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 2005-2010* in providing units for very low- and extremely low-income households.

COST SUMMARY/IMPLICATIONS

None—no additional costs will be incurred by approving this targeting change.

BUDGET REFERENCE

Not applicable.

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CEQA

CEQA: Exempt, PP09-143.



LESLYE KRUTKO

Director of Housing

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