COUNCIL AGENDA: 5-17-11
ITEM: 4.2

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leslye Corsiglia

SUBJECT: SEE BELOW

DATE: April 25, 2011

Approved

Date 5-3-11

COUNCIL DISTRICT: 5
SNI AREA: N/A

SUBJECT: FUNDING COMMITMENT FOR THE TAYLOR OAKS APARTMENTS BEING DEVELOPED BY FOR THE FUTURE HOUSING, INC.

RECOMMENDATION

Adopt a resolution of the City Council:

1. Approving a funding commitment to For the Future Housing, Inc. ("FFH") or its designated affiliate for up to $5,250,000 for an acquisition, rehabilitation and permanent loan funded from the Neighborhood Stabilization Program 2 ("NSP2"); and,

2. Authorizing the Director of Housing to negotiate and execute an amended consortium agreement with The Housing Trust of Santa Clara County ("HTSCC") under NSP2 in an amount up to $5,250,000 for acquisition and construction rehabilitation of the 59-unit Taylor Oaks Apartments ("Project").

OUTCOME

Approval of the recommended action would assist the City in meeting the NSP2 requirement to set-aside a minimum of 25 percent of the $25,000,000 grant awarded to the consortium, for housing targeted to Very Low-Income (VLI) households. Further, the recommended action would enable 58 units of affordable housing and one manager's unit to be acquired and rehabilitated in the City that will be affordable to Extremely Low-Income (ELI) and Very Low-Income (VLI) individuals and families with maximum incomes between $21,750 and $46,600 per year, respectively.

BACKGROUND

The City formed a consortium with The Housing Trust of Santa Clara County ("HTSCC") and successfully received $25,000,000 in NSP2 funds. A Notice of Funding Availability ("NOFA") was issued by the NSP2 Consortium for the use of these funds in February 2011. FFH was selected for an NSP2 award of $5,250,000 after submitting a proposal in response to the NOFA. Along with other sources of funds, the NSP2 funds will assist in the acquisition of the property by FFH from a third party owner, and provide rehabilitation and permanent financing for the existing 59-unit Taylor Oaks apartments. The Housing Department will process a Request for Release of Funds to comply with the National Environmental Policy Act ("NEPA") required for the use of NSP funds, since NSP is governed by the U.S. Department of Housing and Urban Development (HUD). The Housing Department anticipates receiving Authorization to use Grant Funds from HUD in May 2011.

The proposed project is located at 2727-2738 Kollmar Avenue, just east of Capital Expressway and approximately ¾ mile south of Highway 101. The area is primarily entry level single family residential homes and apartment complexes. The property is in close proximity to amenities such as schools, grocery stores and transportation.

The site consists of approximately 1.25 acres with apartments constructed in 1959. The existing buildings are in need of upgrade due to substantial deferred maintenance. The two and three story apartments contained in two buildings feature tuck under surface parking. The "soft story" parking condition is subject to failure during seismic activity. The site has been identified by the Department of Housing and Urban Development as within a census tract whose viability has been damaged by the economic effects of properties that have been foreclosed upon and abandoned. Due to this condition, the Project is a candidate to receive an NSP2 loan.

It should be noted that there are other apartment buildings in close proximity to the proposed project that are also in need of repair. However, the NSP2 budget and other financing constraints did not allow for additional buildings to be funded at this time.

ANALYSIS

The project will serve individuals and families between 30-50% of area median income ("AMI") with incomes between $21,750 and $46,600 per year. The majority of the existing tenants will continue living at the property and be moved into newly renovated units as they become available. It is estimated that approximately 20 households will be permanently relocated. As consideration for the funding, 55-year affordability restrictions will be recorded on the property. Proposed unit mix, affordability based on percent of AMI, and rents will be as follows:

Type of Unit / AMI	Number of Units	Unit Size s.f.	Initial Net Rent/Month
Studio – 30% AMI	6	388	$ 507
Studio – 45% AMI	10	388	$ 779
1 BR - 50% AMI	14	480	$ 925
2 BR – 50% AMI	28	605	$ 1,111
Manager's Unit – 2 BR	1	605	
Totals	59		

The scope of work for the building interior will consist of removing and replacing all interior trim, doors, hardware, cabinetry, tubs/showers, flooring, bath vanities, toilets, bath accessories, kitchens, appliances, and light fixtures as well as adding individual energy efficient package terminal air conditioning units. The existing manager's unit and leasing office will be converted to a new recreation room with private office and leasing office. This space will include a new kitchen, bathroom and television with seating space. Resident amenities will be provided in this space.

The scope of work for the building exterior will consist of replacing all exterior deck coatings, aluminum windows, roof, entry doors, railings, stucco/plaster patching gutters & downspouts and paint. Additionally, all soft story parking conditions will be retrofitted with new concrete grade beams and new structural steel supports. Site work will consist of new landscaping, flat work in select common areas, new site fencing, and patching and resurfacing the paved areas.

It is expected that the rehabilitation will improve the useful life of the buildings by up to 20 years and will provide the tenants with highly improved housing conditions at lower than existing rents. The construction is expected to start in September 2011 and last approximately 12 months. Units will be rehabilitated in groups of 5-10 units to allow qualifying residents to be moved directly into finished units.

For the Future Housing, Inc. (FFH) will be the developer and will be responsible for acquiring financing, managing construction and ongoing management. While FFH is newly formed in April 2010 and this will be their first project, the principals of FFH have extensive backgrounds in development, finance, construction including rehabilitation, and project management. Three of the five principals, Jim Rendler, Marcus Griffin and Steve Massei have numerous years experience in affordable housing development. They have previous experience with ROEM Development Corporation, a well regarded developer client of the Housing Department.

The other principals of FFH, Steve Putnam and Mike Avila, are owners of MRC Construction ("MRC"), who will be the general contractor for the project. MRC is based in Campbell, California and has been in business since 2003. Acting as general contractor, MRC focuses primarily on multifamily housing development in the South Bay area. Since 2003, MRC has completed 13 projects, including 7 residential condominium projects containing 864 units, 4 apartment projects, including 3 rehab projects, containing 529 units, one single-family residence and one office building. Mr. Putnam and Mr. Avila have combined experience of 65 years in construction. It is expected that MRC, Mr. Putnam and Mr. Avila will provide completion guarantees. They have satisfactory credit, and adequate net worth and liquidity to support their guarantees.

Project Financing

Approval of the City's funding commitment to FFH would result in sufficient financing commitments for the Taylor Oaks Project to enable the developer to apply for the other funding necessary for the project to proceed. This includes an application to the California Debt Limit Allocation Committee ("CDLAC") for a bond allocation award so that the City can issue multifamily housing bonds for this project. The Developer will also apply to the California Tax Credit Allocation Committee ("TCAC") for a 4% tax credits award and a TCAC State tax credits award.

The project will also utilize a commitment from Citibank for construction and permanent financing. An application will be made for a Federal Home Loan Bank (FHLB) Affordable Housing Program loan. If an FHLB award is received, funds would be used to pay down the City loan or provide additional project rehabilitation.

Estimated total project costs are $12,568,000, which will be funded as follows:

1. A senior permanent loan using proceeds of a City issued tax-exempt bond of $3,695,000
2. An NSP2 loan of $5,250,000 from the City of San Jose. This loan will be repaid from residual receipts from cash flow. Additionally, $258,000 of interest during construction will be deferred.
3. Tax credit investor equity in the amount of $2,768,000.
4. The developer will defer developer fees of $232,000.
5. The project will generate lease-up income of $365,000.

Due to the deep affordability of the Project, the appraisal being prepared is expected to result in a combined loan to value that will be significantly higher than the City's loan-to-value ("LTV") maximum guideline of 100%. However, this result is considered acceptable since the Project is expected to have positive cash flow, which is considered a better measure of project financial viability by the lending industry than LTV.

Tenant Relocation

As this property will involve the acquisition of an existing rental property and the imposition of new affordability restrictions, some residents are expected to relocate. Since this project involves the use of Federal funds, Federal Relocation law will apply. The developer has engaged Overland, Pacific & Cutler (OPC), professional relocation consultants, to plan for the project's tenants that will be relocated. Since new rents will be lower than current rents, most tenants are expected to continue tenancy. The preliminary estimate is that up to 20 tenants will be relocated because their income will exceed program requirements. An updated estimate will be obtained as OPC completes its relocation plan. Staff will review the Relocation Plan and oversee FFH's relocation of tenants. Per Relocation law, the draft Relocation Plan will be presented to the City Council for approval prior to the start of construction and removal of the tenants.

Project Benefits

The Project will provide numerous benefits to its residents, the surrounding neighborhood, and the City: These are summarized below.

- The Project will provide tenants with improved housing conditions at lower rents than currently provided.
- The Project will provide beneficial resident services programs such as adult education, financial literacy and after school tutoring.
- Project rehabilitation will correct health and safety items at the property such as the "soft story" tuck under parking condition and extend the useful life of the buildings.
- The Project is only one of two multifamily rental project identified by the Housing Department that can be completed and occupied by the required completion and occupancy date of February 11, 2013 as required under the NSP2 guidelines.
- The Project adds 59 units of affordable very-low and extremely-low income housing to the City's affordable housing stock.
- The Project contributes to the goals of the City and the NSP2 program to help stabilize neighborhoods in census tracts whose viability has been damaged by the economic effects of properties that have been foreclosed upon and abandoned.

EVALUATION AND FOLLOW-UP

The Housing Department posts quarterly reports on the status of its subsidized construction projects to its website, www.sjhousing.org. If approved, the Taylor Oaks Apartments would be included in these reports.

POLICY ALTERNATIVES

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

Alternative #1:	***Deny or delay the requested funding commitment.***
Pros:	The funds being requested could be used for other affordable housing projects and programs, but only programs that meet the Neighborhood Stabilization Program guidelines to include being able to be in-service by February 11, 2013.
Cons:	The subject project is one of two multifamily rental projects that are able to meet the NSP2 guideline requiring project construction completion and occupancy by the program deadline of February 11, 2013. Delaying funding of the project may result in a missed opportunity for NSP2 funding resources for multifamily housing.
Reason for not recommending:	The proposed project will help to meet the demand for deeply affordable housing that is affordable to ELI and VLI households and will help the City to fulfill its affordable housing goals. Approval of this project financing will ensure that this very important affordable housing project will move ahead in a timely manner and will leverage NSP2 funds.

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. A copy of the City Council memo will be posted to the City's website.

COORDINATION

This memorandum was coordinated with the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This expenditure 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, 2005-10* in providing units for very low- and extremely low-income households.

COST SUMMARY/IMPLICATIONS

1. COST OF PROJECT:

USES	AMOUNT
Property Acquisition	$6,100,000
Hard Costs – Rehabilitation	2,517,960
Relocation of Tenants	1,095,261
Other Soft Costs	2,855,310
TOTAL	$12,568,531*

* Of the total project costs, the City's portion of the costs is $5,250,000.

2. COST ELEMENTS OF CITY LOAN AMOUNT

USES	AMOUNT
Property Acquisition	$5,250,000
TOTAL	$5,250,000

2. SOURCES OF FUNDING: Fund 448 – Multi-Source Housing Fund

3. FISCAL IMPACT: No ongoing fiscal impact.

BUDGET REFERENCE

The table below identifies the fund and appropriation proposed to fund the agreement as recommended as part of this memorandum.

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. For Contract	2011-12 Adopted Operating Budget	Last Budget Action (Date, Ord. No.)
448	3790	Recovery Act – Neighborhood Stabilization Program 2	$8,973,940	$5,250,000	N/A	10/19/2010 Ord. #28829

CEQA

Exempt, PP11-022.

/s/
LESLYE CORSIGLIA
Director of Housing

For questions, please contact LESLYE CORSIGLIA, Director of Housing, at 408-535-3851.

attachments

ATTACHMENT 1

Anticipated Project Timeline
Taylor Oaks Apartments

Estimated City Council Approval of Funding Commitment	May 17, 2011
Application to California Debt Limit Allocation Committee (CDLAC)	May 20, 2011
Notification of Award from CDLAC	July 20, 2011
Estimated City Council Approval of Construction and Permanent Bond Financing	September 2011
Estimated Date of Loan Closing, Acquisition and Start of Construction	September 2011
Estimated Date of Completion of Project Rehabilitation and Full Occupancy	October 2012

ATTACHMENT 2

Taylor Oaks
Map