



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Corsiglia

SUBJECT: SEE BELOW

DATE: May 29, 2012

Approved:

Date:

6/6/12

COUNCIL DISTRICT: 3

**SUBJECT: APPROVAL OF A FUNDING COMMITMENT FOR
PREDEVELOPMENT FOR THE JAPANTOWN SENIORS
APARTMENTS PROJECT**

RECOMMENDATION

It is recommended that the City Council adopt a resolution approving a funding commitment of up to \$500,000 of funding from the federal HOME Investments Partnership Program (HOME) to First Community Housing (FCH) for a predevelopment loan for the planned 75 unit Japantown Seniors Apartments, an affordable rental development to be located on the former City Corporation Yard Parking Lot site located at 675 N. Sixth Street.

OUTCOME

Approval of the recommended action will enable FCH to pay the HOME authorized predevelopment costs, which may include those related to plans and specifications, and Planning and Building Department permit approvals, and to apply for 9% low income housing tax credits in the spring 2013 funding round.

BACKGROUND

As part of the FY 2009-10 Budget, the City Council approved the Housing Department's acquisition of the former City Corporation Parking Lot for the purpose of affordable housing development. In April 2009, the site was acquired by the Housing Department with funds from the Low and Moderate Income Housing Funds from the General Services Department for the appraised value of \$2,200,000.

The site is a half acre parcel located in the Japantown neighborhood just south of an existing senior residential development and across the street from the former City Corporation Yard. The

May 29, 2012

Subject: Approval of a Funding Commitment for Predevelopment for the Japantown Seniors Apartments

Page 2

site and the nearby City Corporation Yard have a long history of development planning that dates back to the City Council's decision to relocate the City Corporation Yard and seek proposals for redevelopment of these sites. In 2006, FCH was selected as part of a development team with the Olsen Company and again with Williams & Dame, for development of the inclusionary housing portion of a mixed use development containing residential, commercial, and public amenities on the site and former City Corporation Yard site. After Williams & Dame dropped out as developer in 2008 due to the weak for-sale market, FCH decided to pursue funding of the affordable senior apartment project on the site and has submitted updated project information to the Housing Department.

On June 16, 2010, FCH obtained a Planned Development Permit, file number PD08-015, for a 75 unit multifamily project. On February 29, 2012 the PD Permit was amended to enable all requirements to be satisfied not later than June 14, 2014, including the treatment of historic Japanese and Chinese artifacts if these are discovered on the site.

On February 8, 2011, the City Council adopted a resolution authorizing the Director of Housing to enter into an Exclusive Negotiation Agreement (ENA) to allow for exclusive negotiations regarding a potential ground lease of the site from the City to FCH. At this time, there is not an executed ENA between the City and FCH, however the provisions authorized for the ENA will be incorporated into the predevelopment loan documents.

On October 27, 2011, the Housing Department recertified FCH's status as a Community Housing Developer Organization (CHDO). FCH has been a certified CHDO for the City of San José for several years, and their status is reviewed annually per HUD requirements. A CHDO is a non-profit housing developer that uses city HOME funds to develop affordable housing. These HOME funds can be used in the pre-development or construction phases of a project.

The City determined that the project will have no significant impact on the human environment and that therefore an Environmental Impact Statement under the National Environmental Policy Act of 1969 (NEPA) is not required. On May 29, 2012 HUD issued its Authority to Use Grant Funds letter which was the last step in finalizing the National Environmental Policy Act (NEPA) review which is required prior to committing predevelopment funds under the HOME program.

FCH has strong community support for development of this project and has participated in over 10 neighborhood meetings between February of 2006 and May of 2008. The senior apartment project was incorporated in all of these meetings and in the CEQA environmental impact report as a key component.

It should be noted that on February 1, 2012, the Redevelopment Agency of the City of San José was dissolved and all assets of the 20% Housing Program, including real property, were transferred to the City pursuant to state legislation (ABX-1 26). The City now manages the Japantown site as a housing asset.

ANALYSIS

Without the certainty of predevelopment funding, projects are unable to move through the entitlement process, which is a necessary precursor to apply for State funding such as tax credits. The Housing Department has a Predevelopment Loan Program that provides nonprofit affordable housing developers with loans up to \$100,000 at favorable interest rates. These loans can be approved by the Director of Housing under the Director's Delegated Authority from the City Council. The \$100,000 available per the Director's authority is insufficient funding for FCH to make sufficient progress in getting the development positioned for tax credit funding in the spring of 2013. FCH's predevelopment costs are estimated at \$500,000.

Staff anticipates returning to council to seek a commitment of funds for a construction/permanent loan from the City and authorization to enter in to a Site ground lease in conjunction with FCH's planned application for a 9% tax credit award in the spring of 2013.

Specific business terms for the predevelopment loan will be approved by the Director of Housing pursuant to the Director's Delegation of Authority ordinance, located in Chapter 5.06 of Title 5 of the San Jose Municipal Code. The anticipated funding source for the predevelopment loan is the federal HOME program. The loan will be subject to the applicable HOME limitations on maximum amount, and authorized costs and other HOME requirements. This use of HOME funds is authorized pursuant to Section 4 of the City's FY 2012-13 Consolidated Annual Action Plan under the City's 2010-2015 Consolidated Plan.

EVALUATION AND FOLLOW-UP

The Housing Department plans to return to the City Council with a recommendation for construction/permanent and ground lease financing once the project is able to apply for a 9% low income housing tax credit award, expected in spring 2013.

POLICY ALTERNATIVES

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

Alternative: *Deny the requested predevelopment funding commitment.*

Pros: The City's risk for a predevelopment loan is greater than for construction or permanent loans.

Cons: FCH's inability to borrow the project's predevelopment funding from the City will postpone this project indefinitely. Staff will negotiate business terms that give the City adequate security for these funds prior to closing the construction/permanent loan, which will repay the predevelopment obligation.

Reason for not recommending: The predevelopment loan will facilitate the development of the Japantown project which will help meet the demand for extremely low-, very low-and low-income affordable housing for seniors. This City is required to commit its HOME allocation on affordable housing activities within a specific timeframe or the Housing Department will be required to return the funds to HUD. Use of HOME funds for this project will help the City meet its funding commitment deadline.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 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)**
- Criteria 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 none of the criteria set forth above. Nonetheless, this Council report will be posted to the City's website for the June 19, 2012 Council Agenda.

COORDINATION

This report has been coordinated with the Office of the City Attorney and the City Manager's Budget 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, 2011-15* in providing units for very low- and extremely low-income households.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION: \$500,000
2. COST ELEMENTS OF AGREEMENTS:

May 29, 2012

Subject: Approval of a Funding Commitment for Predevelopment for the Japantown Seniors Apartments

Page 5

Predevelopment Soft Costs \$500,000

3. SOURCE OF FUNDING: Fund 445 – Home
Investment Partnership Program Fund

4. FISCAL IMPACT: No ongoing fiscal impact.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. For Contract	2011-2012 Adopted Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
445	0070	Housing Loans & Grants	\$9,699,051	\$500,000	XI-45	10/18/2011 Ord# 28979

CEQA

Resolution No. 74384, GP07-03-04, PDC08-010.

/s/
LESLYE CORSIGLIA
Director of Housing

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

Attachments



ATTACHMENT 1
Anticipated Project Timeline

Architectural /Engineering Team Prepares Permit Documents	12/1/12
Council approval of Construction / Permanent Funding	2/2013
Building Dept Reviews and Approves Permits	3/1/12
Application to FHLB AHP Program	3/2013
Submission of 9% TCAC Application	3/2013
Notification of Award from TCAC	6/2013
Construction Loan Closing	10/2013
Construction Completion	3/2015
Conversion to Permanent Loan	7/2013

If 9% credits are not awarded in the first attempt then another submission for 9% TCAC credits will be made in the second round. All steps after FCH submits 9% TCAC Application are approximately 4 months later than shown above.

ATTACHMENT 2

Arial Map

