



Memorandum

TO: HONORABLE MAYOR AND CITY
COUNCIL AND REDEVELOPMENT
AGENCY BOARD

FROM: Del D. Borgsdorf
Harry S. Mavrogenes

SUBJECT: SEE BELOW

DATE: June 14, 2004

COUNCIL DISTRICT: 3

SNI AREA: Delmas Park
& University

SUBJECT: FUNDING COMMITMENTS TO CORE DEVELOPMENT INC., OR ITS AFFILIATE OR ASSIGNEE, FOR THE CONSTRUCTION AND PERMANENT FINANCING OF THE DELMAS PARK APARTMENTS PROJECT AND TO EMERGENCY HOUSING CONSORTIUM FOR THE OUR HOUSE PROJECT

RECOMMENDATION

1. It is recommended that the City Council adopt a resolution making a loan commitment to CORE Development Inc, or its designated affiliate entity or assignee, of up to \$7,206,605 for construction and permanent financing of the 123-unit Delmas Park Apartments project, located at the southeast corner of West San Carlos Street and Bird Avenue and to be made affordable to extremely low-, very low- and low-income households.
2. It is recommended that the Agency Board adopt resolutions:
 - a. Approving the shift of \$2,500,000 from FY 2004-2005 to FY 2003-2004 in the 20% Supplement (Allowance) project line in the Merged Redevelopment Area, as detailed on Attachment B; and
 - b. Approving \$1,500,000 in grant funding to the Delmas Park Apartments project and an additional \$1,000,000 in grant funding to the Our House project, located at the northeast corner of South Third and Williams Streets, as detailed on Attachment B; and
 - c. Amending the FY 2003-2004 Agency appropriations resolution, as detailed on Attachment B.

BACKGROUND

Delmas Park Apartments

On April 30, 2002, the City Council approved several actions with respect to acquisition/predevelopment financing for the Delmas Park Apartments project, including: a conditional grant of \$2,800,000 to CORE Development Inc., or its designated affiliate (“Developer”) to subsidize the units in the project affordable to extremely low-income households; an acquisition/predevelopment loan of up to \$1,993,000 to the Developer; and an acquisition/predevelopment bridge loan of up to \$650,000 of Rental Rehabilitation Program (RRP) Funds to the Developer for the portion of the site intended for commercial uses.

Because the City’s commitment to provide financing for this development pre-dated the Project Selection System approved by the City Council on February 24, 2004, the proposed construction/permanent financing from the City is being recommended outside the parameters of the threshold criteria and competitive point scoring of that Selection System.

Our House

On October 30, 2001, the Agency Board approved a Relocation and Development Agreement with Emergency Housing Consortium (EHC) for the relocation of its Our House youth shelter facility, a move necessitated by the new City Hall site selection. At that time, the Board committed up to \$2.5 million of Agency funds toward the \$10 million project, that was also projected to receive funding from several other sources including the Housing Department, the Housing Trust of Silicon Valley, State and Federal programs and grants through a capital campaign

The overall project proposed by EHC also included nine units of transitional housing for extremely low-income youth. On May 27, 2003 the City Council approved a conditional grant of \$1,035,000 to partially finance these units.

ANALYSIS

PROJECT DESCRIPTION – Delmas Park Apartments

The proposed Delmas Park Apartment development is located on a 0.82-acre parcel at the southeast corner of West San Carlos Street and Bird Avenue. It will be an eight-story structure with approximately 5,000 square feet of ground floor, retail commercial space together with associated parking.

The marketing of the project will be directed to nursery school teachers, paraprofessional teacher aides, and schoolteachers, though there will not be a preference for any of these groups in renting the units. On-site services will focus on professional career development for the targeted population.

Subject: FUNDING FOR THE DELMAS PARK APARTMENTS PROJECT

The proposal includes 123 rental units, of which 26 would be affordable to extremely low-income households (ELI), 40 would be affordable to very low-income households (VLI), 56 would be affordable to low-income households (LI) and one would be an unrestricted manager's unit. The development will consist of 32 studio apartments, 43 one-bedroom apartments, and 48 two-bedroom apartments. The proposed affordability mix at various percentages of Area Median Income (AMI) by unit size and estimated rents is:

	<u>Studio</u>	<u>1BR</u>	<u>2BR</u>	<u>Total</u>
ELI (30% of AMI)	26 @ \$531	--	--	26
VLI (50% of AMI)	2 @ \$902	38 @ \$959	--	40
LI (60% of AMI)	4 @ \$1,088	5 @ \$1,158	47 @ \$1,200	56
Unrestricted			1	1
TOTAL UNITS	32	43	48	123

It was originally intended that CORE Development and the San Jose Teachers Academy Foundation would be the co-general partners of the limited partnership. The structure has changed so that AOF/Pacific Affordable Housing Corporation will be the nonprofit co-general partner in place of the Teachers Academy Foundation, though the Foundation will continue to be involved in the project as the primary service provider.

The overall cost of project is estimated at \$39,485,550. Of this total, \$1,500,000 is attributable to the commercial portion of the project, which is the amount of the proposed Agency contribution.

In addition to the City and Redevelopment Agency funding (see below), the developer proposes to finance the project with a tax-exempt multifamily bond allocation from the California Debt Limit Allocation Committee (CDLAC), loans from the County of Santa Clara Office of Affordable Housing and the Santa Clara County Housing Trust, and an allocation of 4% Low-Income Housing Tax Credits.

PROJECT DESCRIPTION – Our House

The proposed Our House project will consist of: (1) a 6,000 square-foot facility that includes ten beds for youth shelter purposes and facilities for emergency or drop-in clients; (2) a nine-unit apartment facility to house EHC's transitional living program for young adults and City Year Youth Program participants; and (3) common facilities for the above components, including indoor and outdoor recreation, off-street parking, and administrative offices.

Subsequent to the Redevelopment Agency and City funding commitments to the project noted above, EHC has sought grants from the CDBG and the Healthy Neighborhoods programs but was not successful in either instance. Including the projected level of private foundation grant funding, a financial gap of \$1 million remains. The proposed additional commitment of Agency funds would close that gap and permit the project to proceed.

FINANCING – City Transaction

The \$2,800,000 grant to subsidize the ELI units at Delmas Park was disbursed in 2002 as part of the property acquisition funding. The source of this grant financing was 20% Supplement funds from the Redevelopment Agency.

The proposed construction/permanent loan commitment of up to \$7,204,605 includes the \$1,993,000 amount of the acquisition/predevelopment loan previously approved by the City Council.

Pursuant to the Delegation of Authority approved by the City Council on June 25, 2002, the City Manager will approve the specific business terms of the construction/permanent loan.

FINANCING – Reallocation of Redevelopment Agency 20% Supplement Funds

The Delmas Park Apartments and the Our House projects have previously received City/Agency funding commitments and continue to face funding gaps that prevent them from proceeding. Since each project uniquely fulfills important City and Agency policy objectives, the Housing Department and Redevelopment Agency staffs are jointly recommending that the \$2.5 million, which is the subject of the recommended re-budgeting action, be reserved for these two projects rather than fund additional units affordable to extremely low-income households.

FINANCING – Redevelopment Agency Transaction

The \$2.5 million in Redevelopment Agency funds is recommended for the Our House project (\$1 million) and the costs of retail commercial development in the Delmas Park Apartments project (\$1.5 million). Of the latter amount, \$650,000 would be transferred to the Housing Department to repay the acquisition/predevelopment bridge loan from RRP Funds.

The \$1 million for Our House and the remaining \$850,000 for Delmas Park Apartments will be transferred to the Housing Department and disbursed by the Department on behalf of the Agency, with the stipulation that Agency staff will review and approve the plans for the retail commercial development at Delmas Park prior to the disbursement of funds (the Agency already has design review for the Our House project through the existing Agreement with EHC).

All Redevelopment Agency funds will be in the form of grants to the respective developers of the two projects.

PUBLIC OUTREACH

Delmas Park Apartments

On April 23, 2003, the developer hosted a meeting for property owners, residents and businesses in the surrounding neighborhood at the Pensione Esperanza SRO development. On June 4, 2003, the developer made a presentation of the proposed project to the Delmas Park Neighborhood Advisory Committee. In addition, the PD rezoning process included noticed public hearings before the Planning Commission and City Council.

Our House

EHC has met with neighbors over twenty times, obtained PD zoning and permits, and nearly completed the project construction documents.

COORDINATION

Preparation of this report was coordinated with the Department of Planning, Building and Code Enforcement, the Office of the City Attorney and the Redevelopment Agency's General Counsel.

LEGAL IMPLICATIONS

Delmas Park Apartments

55-year affordability restrictions have been recorded on the property, and may be subordinated to senior lenders as allowed by State law. The retail commercial and residential portions of the project will occupy separate condominium or air rights parcels on the site. The deed of trust for the City's loan and the affordability restriction will not be recorded against that portion of the underlying fee used for commercial purposes.

Our House

55-year affordability restrictions will be recorded on the property for the nine units of transitional housing, and may be subordinated to senior lenders as allowed by State law. The youth shelter and residential portions of the project will occupy separate condominium or air rights parcels on the site. The deed of trust for the City's conditional grant and the affordability restriction will not be recorded on that portion of the underlying fee used for the youth shelter.

FISCAL IMPLICATIONS

City

The \$5,213,605 of additional City loan commitment is available in the Housing Department's Fiscal Year 2003-04 Low- and Moderate-Income Housing Fund Budget.

A portion of the Redevelopment Agency's \$1,500,000 contribution to the Delmas Park project will repay the City's \$650,000 acquisition/predevelopment bridge loan from the RRP Fund.

Agency

The proposed shift of \$2,500,000 from FY 2004-2005 to FY 2003-2004 in the 20% Supplement (Allowance) project line (Merged Redevelopment Area) will have zero impact to the capital reserve, as detailed on Attachment B.

CEQA

Delmas Park Apartments (PDC03-016) – Addendum to EIR Resolution No. 68839 (Downtown Strategy Plan EIR)

Our House/City Year (RPD03-004) – EIR Resolution No. 68839 (Downtown Strategy Plan EIR)

DEL D. BORGS DORF
City Manager

HARRY S. MAVROGENES
Interim Executive Director

Attachments:

- A – Development Timelines
- B – Proposed Adjustments to Redevelopment Agency FY 2003 Budget, FY 2004-08 CIP
- C – Location Map – Delmas Park Apartments
- D – Location Map – Our House

Development Timeline – Delmas Park Apartments

April 30, 2002	City Council approval of acquisition/predevelopment loan and grant
June 17, 2003	City Council approval of PD rezoning (PDC 03016)
June 29, 2004	Anticipated City Council and Redevelopment Agency Board approval of construction/permanent financing commitments
July 7, 2004	Deadline to apply to CDLAC for tax-exempt bond allocation
September 2004	Anticipated award of tax-exempt bond allocation by CDLAC
October 2004	Anticipated start of construction
September 2006	Anticipated completion of construction

Development Timeline – Our House

October 31, 2001	Agency Board approval of Relocation and Development Agreement with EHC for relocation of Our House youth shelter
May 27, 2003	City Council approval of grant of ELI funds for nine units at the new Our House facility
June 29, 2004	Anticipated Agency Board approval of additional grant funding for Our House project
April 2005	Anticipated start of construction
November 2006	Anticipated completion of construction