



## Legislation Details (With Text)

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**Title:** Action on Amended and Restated Disposition and Development Agreement with Monroe Street Housing Partners L.P for the Project at 2330 Monroe Street and Related Budget Amendment [Council Pillar: Promote and Enhance Economic, Housing and Transportation Development]

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. Freebird DDA, 2. City Loan Agreement, 3. City Promissory Note, 4. Seller Promissory Note, 5. Seller Deed of Trust, 6. Seller Assignment of Rents and Leases, 7. Redline pages DDA, 8. Resolution, 9. Resolution No. 20-8886

Date	Ver.	Action By	Action	Result
9/1/2020	1	Council and Authorities Concurrent Meeting	Approved	

## REPORT TO COUNCIL

### SUBJECT

Action on Amended and Restated Disposition and Development Agreement with Monroe Street Housing Partners L.P for the Project at 2330 Monroe Street and Related Budget Amendment [Council Pillar: Promote and Enhance Economic, Housing and Transportation Development]

### BACKGROUND

The City, as Housing Successor to the dissolved redevelopment agency, was designated to assume all housing assets (including land) of the former redevelopment agency and these assets were placed into a Housing Successor Fund. As the Housing Successor, the City must initiate development activities on any land that it obtained from the former redevelopment agency within five years after the Department of Finance confirmed the property as a housing asset and consistent with the intent to provide housing affordable to persons and families of low and moderate income.

The City issued a Request for Proposals (RFP) in 2018 for the development of an affordable housing project on the City-owned property located at the southeast corner of Monroe Street and San Tomas Expressway (2330 Monroe Street). Monroe Street Housing Partners L.P (Freebird) was selected as the Developer for the site through an RFP process and the Council approved an Exclusive Negotiation Agreement (ENA) with Freebird in December 2018 to allow the project to proceed. On January 28, 2020, Council approved land use entitlements and a Disposition and Development Agreement for the project.

The subject property is currently vacant. It is bordered to the west by San Tomas Expressway and to the north by Monroe Street and bounds the rear yard of single-family residences to the south and east. Neighboring land uses include single-family houses to the north, south and east, two-story

multifamily residential uses across Monroe Street to the northeast, and the San Tomas and Monroe Neighborhood Park across San Tomas Expressway to the west.

The proposed project consists of a single 65-unit building varying in height from two to three stories, approximately 32,000 square feet of open space for active recreational uses, and 98 surface parking spaces. The parking includes ten stalls designated for future EV charging stations, a loading/drop-off/paratransit stall, seven accessible stalls, and a dedicated food delivery stall. All units within the project will be deed restricted as affordable housing. A unique aspect of the Developer proposal is a set-aside of 25% of the units (16 units at 25% AMI) for Santa Clara's growing population of adults with developmental and/or intellectual disabilities.

The Developer's proposal to provide housing for a variety of household sizes and incomes addresses the community's desire to create homes in the City for people who work in a variety of lower-paying jobs that provide key services to the community. The City's existing market rate rental housing is out of reach for many working families, including those supported by workers in public service, health care, education, retail, hospitality, and social services. While workers in the lowest-paid jobs (from minimum wage to 60% AMI) can apply for five-year wait lists for affordable housing, families in the 60% to 120% AMI range are excluded even from typical affordable housing.

The following is a summary of the project's proposed affordability structure:

<b>Proposed Project Unit Mix</b>			
<b>Income</b>	<b>Units Previous</b>	<b>Units Current</b>	<b>Percentage</b>
30% AMI	16	16	25%
50% AMI	10	13	20%
60% AMI	13	12	18%
80% AMI	16	23	35%
100% AMI	9	0	0%
Manager	1	1	2%
<b>Total</b>	<b>65</b>	<b>65</b>	<b>100%</b>

The project's provision of units for adults with development and/or intellectual disabilities would address a previously unmet goal of the City's 2014-2022 Housing Element: to collaborate with developers to create inclusive housing for people with developmental disabilities served by the San Andreas Regional Center.

## **DISCUSSION**

After pursuing multiple funding options, the project Developer has not been able to obtain the full amount of funding needed to move the 100% affordable project forward. The Developer has therefore requested an Amendment to the project's Disposition and Development Agreement (DDA) to increase the City capital loan by \$1,500,000, which would increase the City's loan amount from \$5,000,000 to \$6,500,000. The City and Developer are also recommending a seller takeback loan in the amount of \$5,200,000.

## **City Capital Loan**

The City is currently the fee owner of the Property. The original DDA provided a supplemental capital loan of up to \$5,000,000 through a Loan Agreement. At the time of the original DDA, project financing assumed funding from the State's recently launched Mixed Income Program (MIP), including capital subsidy and state low income housing tax credits. While the State had previously indicated MIP funding would be allocated across four rounds annually, the State allocated all of the funds in the first two rounds of 2020 so that MIP funds were not available for the project and leaving the project with about a \$5 million gap from its original funding plan. The Developer subsequently applied for Apple Affordable Housing Funds through the Housing Trust of Silicon Valley but was not awarded funds (we believe 4 projects were awarded from the over 50 applications received). The Developer was however able to obtain a Project Based Voucher award on May 19, 2020 through the Santa Clara County Housing Authority (SCCHA) which will meet part of their current financing gap.

To fill the remaining gap, the Developer is requesting an additional \$1.5 million of City capital loan, which would increase the City's loan amount from \$5,000,000 to \$6,500,000 (\$100k per unit). In the event these funds are not needed prior to financing or after construction completion, these funds will be returned to the City. Even if these funds are not ultimately needed, having them committed to the project meets a requirement to demonstrate adequate funding sources in order to qualify for tax-exempt bonds and low-income housing tax credits.

### City Takeback Loan

The proposed Amended and Restated Disposition and Development Agreement would also include a seller takeback loan in the amount of \$5,200,000 to capitalize the site acquisition under the Ground Lease. The \$5,200,000 loan represents the appraised value of the site, which the Developer will pay to the City at closing through execution of the \$5,200,000 seller takeback promissory note. The seller takeback note does not increase the City's capital obligation to the project; however, this structure does guarantee that the City will recapture the value of its land over time through residual receipt cash flow payments.

### Conclusion

The project plays an important role in achieving the City's affordable housing program objectives. The additional loan amount represents a small increase in City contribution relative to the overall value of the development and the benefit it would bring to the City. City staff agrees that the Developer has exhausted other potential funding opportunities and that it could not be anticipated that the MIP funding would not be available. The City has adequate funds within the Housing Authority Fund to provide the additional loan amount being requested.

The following is a summary of the updated permanent financing sources that would be in place with approval of the requested Amendment:

Project Funding - Permanent Sources		
	Previous	Revised
Tax Credit Equity	\$ 13,000,000	\$ 15,450,000
Tax Exempt Bonds	\$ 11,200,000	\$ 14,200,000
City of Santa Clara Capital	\$ 5,000,000	\$ 6,500,000
City of Santa Clara Land L	\$ 0	\$ 5,200,000
State MHP Loan	\$ 5,500,000	\$ 0
County Loan	\$ 3,200,000	\$ 3,200,000

Deferred Developer Fee	\$ 750,000	\$ 1,800,000
<b>Total Sources</b>	<b>\$ 38,650,000</b>	<b>\$ 46,350,000</b>

The development budget has increased by \$7.7 million, which is mostly a function of the \$5.2 million City land loan. The previous transaction included a \$0 conveyance and now the \$5,200,000 seller takeback loan guarantees that the City will recapture the value of its land over time through residual receipt cash flow payments. Other cost increases are associated with permitting, insurance, and an adjustment to the Developer Fee as permitted by the California Tax Credit Allocation Committee (TCAC). All the Developer fee increase has been deferred and will be paid via future cash flows over time.

### Next Steps

It is currently anticipated that with approval of the DDA Amendment, the 2330 Monroe Street project will close financing and start construction by early 2021.

### ENVIRONMENTAL REVIEW

The action being considered does not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378(b)(5) in that it is a governmental organizational or administrative activity that will not result in direct or indirect changes in the environment.

On January 28, 2020, the City Council approved a Mitigated Negative Declaration (MND) and the Mitigation Monitoring and Reporting Program (MMRP) for the proposed project.

### FISCAL IMPACT

If approved, the City’s original capital loan of up to \$5,000,000 for the affordable project would increase by an additional \$1,500,000 as proposed in the Amended and Restated Disposition and Development Agreement for a total loan amount of \$6,500,000. The FY 2020/21 Operating Budget already includes the original loan amount of \$5,000,000 funded through the Housing Successor Agency Fund. The budget amendment recommended below increases the capital loan amount by \$1,500,000 funded from the fund balance in the City Housing Authority Fund.

In addition to the capital City Loan, the Amended and Restated Disposition Development Agreement includes a seller takeback loan in the amount of \$5,200,000, which the Developer will pay to the City at closing and the City will loan back to the affordable project. The budget amendment recommended below recognizes the Developer contributions of \$5,200,000 and the seller loan of \$5,200,000.

The principal under the loan will bear simple interest at a rate of up to 3% per year, subject to final underwriting. The principal and interest due under this agreement would be paid 55 years from the date of the agreement. Annual payments would be made upon the availability of residual receipts and would be proportionally split between the subordinate lenders.

### Budget Amendment FY 2020/21

Current	Increase/ (Decrease)	Revised
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## **Housing Authority Fund**

### Revenues

Developer Contributions	\$0	\$5,200,000	\$5,200,000
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### Expenditures

City Loan for Affordable Housing Project at 2330 Monroe Street	\$0	\$6,700,000	\$6,700,000
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### Reserves

Ending Fund Balance	\$3,149,822	(\$1,500,000)	\$1,649,822
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## **COORDINATION**

This report was coordinated with the City Manager's Office, City Attorney's Office and Finance Department.

## **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email [clerk@santaclaraca.gov](mailto:clerk@santaclaraca.gov) <<mailto:clerk@santaclaraca.gov>>.

## **ALTERNATIVES**

1. Adopt a Resolution approving and authorizing the City Manager to execute the Amended and Restated Disposition and Development Agreement with Monroe Street Housing Partners L.P. for the development of 65 units of housing at 2330 Monroe Street and further authorizing the City Manager to execute all other agreements (including a Ground Lease, Loan Agreements, Deeds of Trust, Promissory Notes, and Affordable Housing Agreement) in a form consistent with the DDA and all other documents necessary or convenient to close escrow and implement the purposes and terms of the DDA.
2. Approve the Related Budget Amendment to recognize Developer Contributions of \$5,200,000, increase the loan appropriation by \$6,700,000, and decrease the Ending Fund Balance by \$1,200,000 in the Housing Authority Fund.
3. Do not adopt a Resolution approving and authorizing the City Manager to execute the Amended and Restated Disposition and Development Agreement with Monroe Street Housing Partners L.P. for the development of 65 units of housing at 2330 Monroe Street
4. Do not approve the Related Budget Amendment to recognize Developer Contributions of \$5,200,000, increase the loan appropriation by \$6,700,000, and decrease the Ending Fund Balance by \$1,200,000 in the Housing Authority Fund.
5. Any other alternate action as directed by Council.

## **RECOMMENDATION**

Alternatives 1 and 2:

1. Adopt a Resolution approving and authorizing the City Manager to execute the Amended and Restated Disposition and Development Agreement with Monroe Street Housing Partners L.P. for the development of 65 units of housing at 2330 Monroe Street and further authorizing the City Manager to execute all other agreements (including a Ground Lease, Loan Agreements, Deeds of

- Trust, Promissory Notes, and Affordable Housing Agreement) in a form consistent with the DDA and all other documents necessary or convenient to close escrow and implement the purposes and terms of the DDA; and
2. Approve the FY 2020/21 Budget Amendment in the Housing Authority Fund to recognize Developer Contributions of \$5,200,000, establish a loan appropriation in the amount of \$6,700,000, and decrease the Ending Fund Balance by \$1,500,000.

Reviewed by: Andrew Crabtree, Director of Community Development

Approved by: Deanna J. Santana, City Manager

### **ATTACHMENTS**

1. Freebird DDA
2. City Loan Agreement
3. City Promissory Note
4. Seller Promissory Note
5. Seller Deed of Trust
6. Seller Assignment of Rents and Leases
7. Redline pages DDA
8. Resolution