



## Agenda Report

20-101

Agenda Date: 2/25/2020

### REPORT TO COUNCIL

#### SUBJECT

Action on a Resolution Approving and Authorizing the City Manager to execute a Loan Agreement with ZAEN Partners, LLC for a loan of up to \$6,000,000 to support the construction of 150 affordable housing units located at 2302 Calle Del Mundo and Approve the Related Budget Amendment [Council Pillar: Promote and Enhance Economic and Housing Development]

#### BACKGROUND

On October 22, 2019, City Council approved and authorized the City Manager to execute an Affordable Housing Agreement with ZAEN Partners, LLC for the provision of thirty (30) very low-income units at 2302 Calle Del Mundo (APN# 097-46-024).

ZAEN Partners, LLC ("Developer"), an affiliate of Ensemble Development ("Ensemble"), is the project sponsor for three infill, mixed-use projects within the Tasman East Specific Plan area that would cumulatively include approximately 969 rental apartment units, associated parking garages, up to 30,000 square feet of retail space, approximately 4,500 square feet of leasing space, and approximately 55,000 square feet of amenity space (collectively, the "ZAEN Tasman East Projects").

At the October 22, 2019 meeting, City staff presented a proposal to consolidate the cumulative affordable housing obligations of the Developer to deliver very low-income units at a single site in lieu of providing moderate affordable units within each individual project. Specifically, the

Developer agreed to deliver all of the affordable unit requirements for three separate projects at once within the project at 2302 Calle Del Mundo by providing thirty (30) very-low income affordable housing units (defined as affordable to households earning an average of 50% of Area Median Income (AMI)), for a period of 55 years, in addition to paying a one-time Affordable Housing In-Lieu Fee equal to one half unit at the residential rental rate (estimated at \$77,000). The approval allowed for a single Affordable Housing Agreement (AHA) with the City of Santa Clara to meet its inclusionary housing requirements for all three projects.

#### **Ensemble Projects subject to the proposed AHA**

Project Name	Address	Housing Units	Retail	Hearing Status
Parcel 19/29	5123 Calle Del Sol	503 DU	23,870 SF	Approved 7-17-19
Parcel 24	2302 Calle Del Mundo	150 DU	5,000 SF	Approved 1-15-20
Parcel 60/61	2263 Calle Del Mundo	316 DU	No Retail	Anticipated Spring / Summer 2020

#### DISCUSSION

Discussion at the October 22, 2019, City Council meeting highlighted the importance of providing greater numbers of new affordable housing units while also addressing the relative greater need for extremely low and very-low income units in comparison with moderate income units. Since the meeting date, City staff has worked with the Developer to explore alternative proposals that might increase the number of affordable units delivered to the City through the subject project. The result is an opportunity to develop a 100% affordable housing project at 2302 Calle Del Mundo in lieu of a market rate project with only 20% of the units restricted for low income residents. For the new proposal, the distribution of these units shall be thirty two (32) units rented to households with income levels at or below 50% AMI, eighty seven (87) units rented to households with income levels at or below 60% AMI, fifteen (15) units rented to households with income levels at or below 80% AMI, fifteen (15) units rented to households with income levels at or below 100% AMI and one (1) unrestricted manager's unit. In return, the developer is requesting a \$6,000,000 (\$50,000 per unit) loan from the City of Santa Clara to support the additional costs of creating 120 income-restricted units in the Center District of the Tasman East Specific Plan.

#### Project Description

The project site is 0.99 acres located at 2302 Calle Del Mundo (APN# 097-46-024) in Santa Clara within the Center District of the adopted Tasman East Specific Plan. The proposed project consists of 150 mixed-income apartment units with approximately 86,520 rentable square feet and approximately 5,000 square feet of general retail.

There is a mix of studios, 1-bedroom, 2-bedroom, and 3-bedroom units ranging in size from 420 square feet to 1,207 square feet.

The residential units will be constructed in a 5-story Type IIIA wood-frame building above two floors of Type IA structured parking that is partially below grade. The site design incorporates landscaped entryways at the retail corners, activating sidewalks and providing a retail streetscape experience with outdoor seating areas. The building design will complement the high-density transit-oriented urban environment envisioned for the Tasman East area. The building exterior includes various massing and design elements incorporated in the project's façade and architecturally addresses its primary street frontage on Calle Del Mundo.

The project will conform to the existing design, environmental, and efficiency standards set in the approved Conditions of Approval with just a few minor revisions to the original development scope. Common area amenities will include a courtyard and outdoor terraces, barbecue and lounge areas, a fitness center, lobby and clubroom. The pool, however, has been removed to reduce construction costs and ongoing operating costs. Based on a review of comparable affordable and income restricted properties, pools are not a standard amenity at affordable properties in the regional market.

#### Project Financing

A summary of the anticipated Sources and Uses includes the following:

<b><u>Parcel 24 Sources and Uses</u></b>	
<b><u>Sources</u></b>	
Permanent Debt:	\$35,831,000
NOI During Construction:	\$ 922,444
B Bond Investor:	\$ 3,429,339

Tax Credit Equity:	\$26,504,582
Deferred Developer Fee:	\$ 4,115,729
Mixed Income Loan Program:	\$ 8,200,000
City of Santa Clara:	\$ 6,000,000
Developer Contribution:	\$ 4,918,225
<u>Total</u>	<u>\$89,921,319</u>
<b><u>Uses</u></b>	
Property Acquisition:	\$ 9,200,000
Construction Costs:	\$51,726,786
Architecture and Engineering:	\$ 2,547,000
Impact and Permit Fees:	\$ 7,638,750
Financing Costs:	\$ 6,486,621
Other Soft Costs:	\$ 2,673,293
Reserves:	\$ 750,176
Developer's Fee:	\$ 8,898,693
<u>Total</u>	<u>\$89,921,319</u>

The Developer has explored several national and state housing programs that could be utilized to create a financially feasible project. The Developer will use a combination of 4.00% Low- Income Tax Credits (LIHTC), tax-exempt bonds, CalHFA's Mixed-Income Program, and developer equity investment through a deferred developer fee. Based on current market conditions, the developer is assuming the 4.00% Tax Credits will generate \$26,500,000 of Tax Credit Equity, \$35,800,000 of Tax-Exempt Bonds, and under CalHFA's revised Mixed-Income Program guidelines, the project qualifies for a \$8,200,000 55-year term, soft loan.

After exhausting all potential sources of subsidy, a financing gap still remains, which is not uncommon for affordable housing projects. The Developer is seeking \$6,000,000 in financing from the City, which corresponds to \$50,000 per unit for the 120 additional affordable units that would be provided in addition to the current 30-unit commitment. The 120 units would be income-restricted units at 50%, 60%, 80% and 100% AMI.

City approval of a loan up to \$6,000,000 would enable Ensemble to apply for low-income housing tax credits and close on the construction financing as early as December 2020. If approved by Council, the next step for the Developer is to transition from schematic design drawings to full construction drawings that can be submitted to the City for review for the purposes of issuing building permits. The Developer anticipates submitting its building permit application in March of 2020. All financing needs to be closed with the construction loan prior to the start of construction, which would be around December 2020. Construction is anticipated to be approximately 24 months and building occupancy would be around December of 2022.

## **ENVIRONMENTAL REVIEW**

The potential environmental impacts of the project were addressed in an Environmental Impact Report (EIR) prepared for the Tasman East Specific Plan and related approvals in accordance with the California Environmental Quality Act (CEQA).

### **COORDINATION**

This report has been coordinated with the City Attorney's Office.

### **FISCAL IMPACT**

The City's loan of up to \$6,000,000 would enable Ensemble Development to apply for low-income housing tax credits and close on the construction financing as early as July 2020.

If approved, the City's loan of up to \$6,000,000 would be drawn from the City's Housing Successor Agency Fund. The City's Housing Successor Agency Fund currently has a balance of approximately \$11.8 million that can be utilized to fund this loan. The approved loan commitment is reflected in the Budget Amendment below. The approved loan is anticipated to be drawn in FY 2020/21 and an appropriate carryover will be included in the upcoming update for the Adopted Fiscal Year 2020/21 Operating Budget.

<b>Budget Amendment FY 2019/20</b>			
	<b>Current</b>	<b>Increase/ (Decrease)</b>	<b>Revised</b>
<b>Housing Successor Agency Fund</b>			
<u>Expenditures</u>			
Developer Loan for Affordable Housing at 2302 Calle Del Mundo	\$0	\$6,000,000	\$6,000,000
<u>Reserves</u>			
Ending Fund Balance	\$11,838,870	(\$6,000,000)	\$5,838,870

The principal under this loan will bear simple interest at a rate of 3% per year, subject to final underwriting. The principal and interest due under this agreement would be paid over 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.

### **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>> or at the public information desk at any City of Santa Clara public library.

**ALTERNATIVES**

1. Adopt a resolution approving and authorizing the City Manager to execute a Loan Agreement with ZAEN Partners, LLC for a loan of up to \$6,000,000 to support the construction of 150 affordable housing units located at 2302 Calle Del Mundo; to make modifications to the Loan Agreement and attachments consistent with the Term Sheet and as reviewed by the City Attorney for form and consistency; to execute all documents necessary (including Deeds of Trust, Promissory Notes, and Affordable Housing Agreements) to implement the Loan Agreement and close escrow; and,
2. Approve the Related Budget Amendment to increase the Loan appropriation by \$6,000,000 and decrease the Ending Fund Balance by \$6,000,000 in the Housing Successor Agency Fund; and
3. Any other alternate action as directed by Council.

**RECOMMENDATION**

Alternative 1 and 2:

1. Adopt a resolution approving and authorizing the City Manager to execute a Loan Agreement with ZAEN Partners, LLC for a loan of up to \$6,000,000 to support the construction of 150 affordable housing units located at 2302 Calle Del Mundo; to make modifications to the Loan Agreement and attachments consistent with the Term Sheet and as reviewed by the City Attorney for form and consistency; to execute all documents necessary (including Deeds of Trust, Promissory Notes, and Affordable Housing Agreements) to implement the Loan Agreement and close escrow; and
2. Approve the Related Budget Amendment to increase the Loan appropriation by \$6,000,000 and decrease the Ending Fund Balance by \$6,000,000 in the Housing Successor Agency Fund.

Reviewed by: Andrew Crabtree, Director of Community Development

Approved by: Deanna J. Santana, City Manager

**ATTACHMENTS**

1. Tasman East Ensemble Projects Map
2. ZAEN Partners, LLC Term Summary
3. Resolution Approving the Authority to enter into a Loan Agreement
4. Form of Draft Loan Agreement
5. Form of Draft Affordable Housing Agreement
6. Form of Draft Covenants