



Agenda Report

19-131

Agenda Date: 2/19/2019

REPORT TO COUNCIL

SUBJECT

Action on Loan Agreement with Allied 2904 Corvin, LP for a Loan of up to \$5,000,000 to Support the Construction of 145 Affordable Housing Units at 2904 Corvin Drive and Approve the Related Budget Amendment

BACKGROUND

The project, Corvin Apartments, is a 100% affordable residential rental development, to be constructed on a 1.08-acre site at 2904 Corvin Drive, Santa Clara, APN: 216-33-034 ("Site"). The development will contain 145 units consisting of 80 units for formerly chronically homeless residents with income levels at or below 30% of Area Median Income ("AMI"), 64 units for residents with income levels at or below 60% AMI, and 1 unrestricted two-bedroom manager's unit (collectively, "Project"). All of the units will be 285-square foot studios with the exception of a 990-square foot two-bedroom manager unit. The building will include a community room, a computer room, onsite laundry, and a full array of supportive services provided by Abode Services ("Development").

The developer of the project is Allied Housing, Inc. ("Allied"), in partnership with Abode Services as the primary service provider and the John Stewart Company as the property manager. Allied executed the acquisition on September 6, 2018 for a purchase price of \$9,500,000 with financing from Housing Trust Silicon Valley.

The site is located within the Lawrence Station Area Plan ("Area Plan") and has all of the zoning and general plan designations required for the development of a high density residential project, as proposed. The Area Plan is intended to guide development in a specific geographic area, and it establishes development policies and sets forth design standards and guidelines applicable to properties within the boundary of the Area Plan. Proposals for development within the Area Plan are required to be consistent with the policies, standards and guidelines contained in the Area Plan. The proposed housing development is consistent with the Area Plan but the City of Santa Clara requires that a design review application be considered by the City of Santa Clara's Architectural Review Board. The Project was approved by the Architectural Committee at the January 16, 2019 Committee meeting. The building will be four (4) stories of Type IIIA construction over one (1) story of Type I construction and will have a total of 65 surface parking stalls. The net rentable square footage of the building is approximately 39,465.

DISCUSSION

Corvin Apartments is a unique project because, while the site was acquired privately at a market price of \$9,500,000, it is a 100% low-income project with over 50% of the units dedicated to formerly homeless persons. The total cost of development, including land acquisition costs, is anticipated to be approximately \$70,000,000, which is just under \$500,000 per unit. The per-unit figure is reasonable due to all of the units being designed as 285-square foot studios or "micro-units."

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

Sources	
City of Santa Clara Affordable Housing	\$ 5,000,000
County Loan	\$ 28,213,471
1st Mortgage	\$ 9,242,900
Deferred fee (paid via cash flows)	\$ 1,000,000
General Partner (Allied Housing) Equity	\$ 1,000,000
Tax Credit Equity	\$ 26,083,495
Total Sources	\$ 70,539,866

Uses	
Acquisition	\$ 9,514,332
Permit and Impact Fees	\$ 4,669,460
Construction Costs	\$ 42,052,774
Architecture and Engineering	\$ 1,872,487
Development Consultants	\$ 518,000
Soft Costs Contingency	\$ 300,000
Financing Expenses	\$ 4,931,121
Holding and Indirect Costs	\$ 135,000
Developer Fee	\$ 4,500,000
Marketing and Outreach	\$ 107,000
Reserve	\$ 1,939,692
Total Uses	\$ 70,539,866

On June 5, 2018, the County of Santa Clara ("County") Board of Supervisors approved a loan of up to \$29,000,000, subject to underwriting, with a maximum of \$10,000,000 allocated to the County's acquisition of the Site, a maximum of \$965,796 allocated to financing predevelopment costs, and a maximum of \$18,034,204 allocated to construction and permanent financing. To effectuate the financing of the project, several actions need to occur. Immediately prior to the closing of financing, the County shall acquire the Site for \$9,500,000, which is the estimated Seller's cost of acquiring the land ("Land Acquisition Price"). Upon closing on the Land Acquisition, the County shall ground lease the property to the Borrower for \$1 per year for a term of 99 years.

The Project has also secured 80 Project-Based Housing Vouchers from the Santa Clara County Housing Authority ("SCCHA"). The vouchers require that these 80 units be used for permanent supportive housing ("PSH") for households experiencing homelessness. An Agreement to enter into a Housing Assistance Payment ("AHAP") contract acceptable to the County shall be provided prior to the closing of financing. The County would be responsible for coordinating and providing ongoing onsite supportive services for the residents of the remaining 80 PSH units at a cost of approximately \$800,000 per year.

City approval of a loan up to \$5,000,000 is the last discretionary funding approval needed for the developer can apply for a 4% bond financing for competitive low-income housing state tax credits. Applications are due by March 4, 2019. 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 by the summer of 2019. Assuming a tax credit allocation is secured in the March 2019 round, the tax credit funding will require that the Project start construction by the end of 2019. All financing needs to be closed with the construction loan prior to the start of construction, which would be December 2019. Construction is anticipated to be approximately 18 months and building occupancy would be around summer of 2021.

ENVIRONMENTAL REVIEW

Pursuant to the California Code of Regulations Title 14, Section 15162, under Guidelines for Implementation of the California Environmental Quality Act (CEQA), the proposed Project is consistent with the Lawrence Station Area Plan Final Environmental Impact Report ("FEIR") and an analysis prepared for the Project determined that it does not involve any new significant effects beyond those analyzed in the FEIR.

FISCAL IMPACT

The City's loan of up to \$5,000,000 would enable Allied Housing to apply for low-income housing tax credits and close on the construction financing as early as December 2019.

If approved, the City's loan of up to \$5,000,000 would be drawn from the City's Affordable Housing Fund. The City's Affordable Housing Fund currently has a balance of approximately \$8.6 million that can be utilized to fund this loan. Please note that revenues are expected to increase due to impact fees and in-lieu fees associated with the Affordable Housing Ordinance, which was implemented in August 2018.

The approved loan commitment is reflected in the Budget Amendment below. It is anticipated that the loan will be drawn in FY 2019/20 and an appropriate carryover will be included in the upcoming Fiscal Year 2019/2020 and 2020/2021 Biennial Budget. 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.

Budget Amendment FY 2018/19

	Current	Increase/ (Decrease)	Revised
Affordable Housing Fund			
<u>Expenditures</u>			
Loan for 2904 Corvin Drive	\$0	\$5,000,000	\$5,000,000

Reserves

Ending Fund Balance	\$8,569,518	(\$5,000,000)	\$3,569,518
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COORDINATION

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

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>> 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 execute a Loan Agreement with Allied 2904 Corvin, LP for a loan of up to \$5,000,000 to support the construction of 145 affordable housing units located at 2904 Corvin Drive; 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;
2. Approve the Related Budget Amendment; and,
3. Any other alternate action as directed by Council.

RECOMMENDATION

Alternative 1 and 2.:

Adopt a resolution approving and authorizing the City Manager execute a Loan Agreement with Allied 2904 Corvin, LP for a loan of up to \$5,000,000 to support the construction of 145 affordable housing units located at 2904 Corvin Drive; 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 Approve the Related Budget Amendment.

Reviewed by: Andrew Crabtree, Director of Community Development

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Corvin Apartments Term-sheet
2. Corvin Apartments Draft Loan Agreement
3. Resolution Approving the Authority to enter into a Loan Agreement