



SUPPLEMENTAL

COUNCIL AGENDA: 10-12-04  
ITEM: 10.1(b)

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL AND  
REDEVELOPMENT AGENCY BOARD

**FROM:** Del D. Borgsdorf  
Harry S. Mavrogenes

**SUBJECT:** SEE BELOW

**DATE:** October 8, 2004

**COUNCIL DISTRICT:** 3  
**SNI AREA:** Delmas Park

**SUBJECT: APPROVAL OF OWNER PARTICIPATION AND GRANT AGREEMENTS BY AND AMONG EHC DELMAS PARK, L.L.C., DELMAS PARK ASSOCIATES, L.P., AOF/PACIFIC AFFORDABLE HOUSING CORPORATION, THE CITY OF SAN JOSE AND THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

## RECOMMENDATION

It is recommended that the City Council and Redevelopment Agency Board approve Owner Participation and Grant Agreements by and among EHC Delmas Park, L.L.C., Delmas Park Associates, L.P., AOF/Pacific Affordable Housing Corporation, the City of San Jose, and the Redevelopment Agency of the City of San Jose, for a total of \$1,500,000 in two grants.

## BACKGROUND

On June 29, 2004, the City Council and Redevelopment Agency Board approved a funding commitment for a grant of \$1,500,000 for the development of the Delmas Park Apartments, a 123-unit affordable rental development located at 598 West San Carlos Street.

Owner Participation and Grant Agreements between the City, the Agency and the various private entities that are participating in the development of the project now require approval by the City Council and Redevelopment Agency Board.

The project will occupy a key site at the southeast corner of Bird Avenue and West San Carlos Street. Through the neighborhood planning process, this corner was identified as a gateway site for which the neighborhood sought a landmark building. The proposed development – an eight-story affordable apartment project with an integrated parking structure – will fulfill this goal.

October 8, 2004

Subject: **OWNER PARTICIPATION AND GRANT AGREEMENTS FOR THE DELMAS PARK APARTMENTS PROJECT**

Page 2

At the recommendation of Agency staff, the Developer agreed to incorporate 5,530 square feet of ground floor retail space in the building, oriented toward the street corner. Staff believes that retail uses at this location are essential to integrate the project into the commercial district, to enliven the street and sidewalk, and to provide goods and services to project residents and the adjacent neighborhood.

The project is being financed primarily through the issuance of tax-exempt multifamily housing revenue bonds, 4% Low-Income Housing Tax Credits, and a construction/permanent loan and a grant from the Housing Department. Accordingly, with the exception of one manager's unit, 100% of the units will be available to low-income, very low-income and extremely low-income households. Because the Housing Department cannot use 20% Funds for any use other than residential development, the Agency's grant of \$1,500,000 to the Developer and Owner is needed for the retail component of the project. The grant monies will be dispersed by the Housing Department in conjunction with disbursements of the City's loan proceeds.

The City and Agency are entering into two separate Agreements with the Developer and Owner to accommodate the project's tax-exempt financing structure:

\$500,000 is being granted to EHC Delmas Park, L.L.C., as a share of land acquisition cost for the retail space. EHC Delmas Park will be the owner of the underlying fee title to the property.

- The remaining \$1,000,000 will be granted to AOF/Pacific, the managing general partner of the development partnership, Delmas Park Associates, L.P. The partnership will hold a long-term leasehold interest on the property. AOF will contribute the grant to the partnership to pay for the non-land costs associated with the retail component, including construction hard costs, the retail component share of predevelopment costs, and interest on the City's 2002 bridge loan that advanced acquisition financing in anticipation of the Agency's funding of the retail space.

As consideration for the grants, the Agency will have design review approval for the retail portion of the project and the Developer and Owner will covenant to build, operate and maintain the project as a first-class, mixed-use residential and retail project. Specifically, the Operation and Maintenance Agreements define both permitted and prohibited uses for the retail space and include maintenance performance standards. Permitted uses include retail businesses and neighborhood service-oriented uses such as repair services and dry cleaners. Uses such as bars, video game arcades, second-hand stores and off-sale of liquor are prohibited. Maintenance performance standards include lighting, sweeping, signs, drainage, and common area responsibilities.

October 8, 2004

Subject: **OWNER PARTICIPATION AND GRANT AGREEMENTS FOR THE DELMAS PARK APARTMENTS PROJECT**

Page 3

**PUBLIC OUTREACH**

The Delmas Park Neighborhood Advisory Committee has reviewed this proposed project several times in SNI community meetings.

**COORDINATION**

Preparation of this memorandum has been coordinated with the Housing Department, the Agency's General Counsel, and the City Attorney's Office.

**FISCAL IMPACT**

The \$1,500,000 in grant funds was included in the Agency's FY 2003-2004 Capital Budget and the funds have been transferred to the Housing Department.

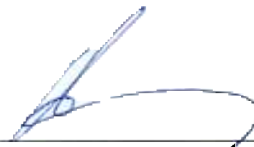
**CEQA**

Downtown Strategy Plan EIR and addenda thereto, Resolutions No. 64273 and 68839 (File No. PDC03-016)



DEL D. BORGSDORF

*for* City Manager



HARRY S. MAVROGENES

Interim Executive Director