

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL/REDEVELOPMENT
AGENCY BOARD

FROM: Del D. Borgsdorf
Harry Mavrogenes

SUBJECT: SEE BELOW

DATE: April 7, 2004

COUNCIL DISTRICT: 3

SUBJECT: PUBLIC HEARING ON A DISPOSITION AND DEVELOPMENT AGREEMENT BY AND BETWEEN THE CITY, THE REDEVELOPMENT AGENCY, FIRST UNITED METHODIST CHURCH TOWER PROPERTIES, L. P., AN AFFILIATE OF THE SAN JOSÉ FIRST UNITED METHODIST CHURCH, AND FIRST UNITED METHODIST CHURCH CAR BARN, INC., ALSO AN AFFILIATE OF THE SAN JOSE FIRST UNITED METHODIST CHURCH, FOR THE DEVELOPMENT OF THE VINTAGE TOWER APARTMENTS, A 59-UNIT MID-RISE APARTMENT BUILDING LOCATED AT 235 EAST SANTA CLARA STREET AND ACCEPTANCE OF THE 33433 SUMMARY REPORT AND REUSE VALUATION

RECOMMENDATION

After conducting a public hearing, it is recommended that the City Council and the Redevelopment Agency Board adopt resolutions:

- a) Approving the transfer of Redevelopment Agency-owned property, located at 235 East Santa Clara Street (Property), pursuant to a Cooperation Agreement between the City and the Agency to the City.
- b) Approving the sale from the City to the First United Methodist Church Tower Properties, L. P., (FUMCTP), for Five Million Two Hundred Thousand Dollars (\$5,200,000.00) for the residential tower and an easement for 104 parking spaces in the adjoining parking garage, and to First United Methodist Church Car Barn, (FUMCCB), a California nonprofit corporation, for Fifty Thousand Dollars (\$50,000.00) for the garage encumbered by the easement (Sponsors).
- c) Approving a loan to First United Methodist Church Tower Properties, L. P., for the acquisition/rehabilitation of the residential building of up to \$2,225,000.

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- d) Accepting the 33433 Summary Report and Re-Use Valuation, and finding that the sale of the Property will provide housing for very low- and low-income persons and is consistent with the Implementation Plans for the San José Merged Redevelopment Project Area and that the consideration for the property is not less than the fair reuse value for the proposed use, with the covenants and conditions and development costs authorized by the Disposition and Development Agreement (DDA).
- e) Approving the DDA among the City of San José, the Redevelopment Agency and the Sponsors for the acquisition and rehabilitation of the Vintage Tower Apartments, a 59-unit mid-rise apartment building located at 235 East Santa Clara Street.
- f) Authorizing the City Manager and the Executive Director to negotiate and execute amendments to the DDA as may be reasonably required by the Developer's lender, and as necessary to conclude this transaction consistent with the authority granted herein.
- g) Authorizing the City Manager and the Redevelopment Agency Executive Director to execute such documents as necessary to convey the Property to the Sponsor once the conditions of conveyance have been met.

REPORT IN BRIEF

This memorandum presents key features of the proposed Disposition and Development Agreement for the acquisition and rehabilitation of housing units, all of which shall be affordable, located at 235 East Santa Clara Street. The attachments include:

- Site Location Map
- The Summary Report required by Section 33433 of the Redevelopment Law

BACKGROUND

The Vintage Tower Apartments building was originally constructed in 1928 as a medical/dental facility and entirely renovated and converted into apartments and first floor commercial space in 1988. The renovation was funded by a \$2,685,000 loan from the Redevelopment Agency of the City of San Jose (RDA) and funds from the California Housing Finance Agency (CalHFA). On March 30, 1998, the RDA acquired the property in a foreclosure sale after the previous owner failed to meet its financial obligation.

On April 15, 2003, the City Council/Agency Board adopted a resolution (#71499) approving an Option Agreement for the sale of the Vintage Tower Apartments and approving a funding commitment for a loan of up to \$2,225,000 to First United Methodist Church Tower Properties, L. P., or its designated affiliate, for the acquisition and rehabilitation of the property. On June 24, 2003, the City Council/Agency Board approved a change in the affordability mix of the development to enhance the project's competitiveness for a tax-exempt bond and tax-credit

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allocation. On July 16, 2003, the City, on behalf of the sponsor, submitted an application to the California Debt Limit Allocation Committee (CDLAC), for a tax-exempt bond allocation. On December 5, 2003, the City and Sponsor returned the allocation to CDLAC, because new information obtained by the Sponsor regarding seismic repairs could not be addressed in sufficient time to meet the CDLAC bond issuance deadline. On February 18, 2004, the City submitted an updated application on behalf of the Sponsor for a tax-exempt bond allocation in the first round this year.

Staff has also prepared a summary report regarding the sale of the subject property and other aspects of the project. The DDA and the summary reports were placed on file with the City Clerk by April 9, 2004, prior to the appearance of the first of the two required public notices for the DDA Public Hearing.

ANALYSIS

THE SITE

The Vintage Tower Apartments is an existing 12-story, 59-unit multifamily development, situated on a 0.76-acre parcel, located at 235 East Santa Clara Street in downtown San José. The residential units are on the second through the twelfth floors of the building. The first floor consists of the lobby in the center and four retail units ranging in size from 600 to 2,100 square feet. The project is located directly across Santa Clara Street from the construction site of the new San José Civic Center, and directly across Sixth Street from the newly constructed Horace Mann Elementary School.

After transfer of the property from the Agency to the City, the City will sell the property to FUMCTP for \$5,200,000 for the residential tower and an easement for 104 parking spaces in the adjoining parking garage. The City will also sell the garage, encumbered by the easement, to FUMCCB for \$50,000. Bond proceeds and tax credit equity will be used to pay for a portion of the purchase of the property. The existing CalHFA loan of \$2,393,469.01 will be repaid and the City will take back a note in an amount of up to \$2,225,000 for the Tower Property. 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 City loan.

THE PROJECT

The Project is a mid-rise apartment building consisting of fifty-nine (59), affordable studio and one-bedroom housing units. All units contain a combined living and dining area, a kitchen, a full bathroom and a master suite. The proposed rehabilitation includes, among other things: repair, patch and paint all exterior surfaces; repair all existing windows and replace all window blinds; replace countertops at kitchens and bathrooms; and refurbish all the retail store interiors including mezzanines, the addition of accessible restrooms, and the replacement of all ground floor retail storefront windows at the south and east elevations.

THE DEVELOPER

The Developer is First United Methodist Church Tower Properties, L. P., ("the Sponsor"), which is an affiliate of the San José First United Methodist Church, and was created for the purpose of completing the Vintage Tower Apartments project. First United Methodist Church Car Barn, Inc. ("the Sponsor"), is also an affiliate of the San Jose First United Methodist Church, and was created for the purpose of owning and redeveloping the garage at a later time.

RELOCATION

The commercial tenants will not be permanently relocated from the site. However because the commercial tenants may have to temporarily move during the rehabilitation of the commercial space, the Sponsor will offer each commercial tenant a cash payment equal to their projected net income for the construction period, or as negotiated between the Sponsor and each tenant. Residential tenants that meet the income restrictions will not be permanently displaced. An estimated four (4) residential tenants have incomes that exceed the restricted amounts; the Sponsor has engaged a relocation consultant to work with over-income tenants to assist in their relocation, as well as determine the level of relocation benefits to which they may be entitled, if any, at the expense of the Sponsor.

DEVELOPMENT SCHEDULE

The DDA requires the following milestones for performance:

February 18, 2004	CDLAC Allocation Application Deadline
April 21, 2004	Anticipated CDLAC Allocation Meeting
April 27, 2004	Anticipated City Council/Agency Board Hearing on Disposition and Development Agreement
May 2004	Anticipated Transfer of Property to Sponsors
June 2004	Anticipated Close of Tax-exempt Bonds and Construction Financing
July 2004	Anticipated Construction Start
June 2005	Anticipated Construction Completion

PREVAILING WAGE

The DDA requires that the Developer, and its Contractors and Subcontractors, pay prevailing wages under the prevailing wage policy adopted by the City Council in February 2004.

AFFORDABILITY RESTRICTIONS

30-Year Affordability Restrictions were recorded on the property on March 30, 1998. As part of the proposed Agreement, those restrictions will be amended and new Affordability Restrictions with a 55-year term will be recorded against the property. These affordability restrictions may be subordinated as permitted by State law.

CITY COUNCIL FINDINGS

The California Health & Safety Code requires that the City Council approve the sale to FUMCTP and FUMCCB, and make three findings set forth below:

1. The sale of the property will provide housing for low- or moderate-income households.

All fifty-nine (59) units will be required to be made affordable as follows: twenty-four (24) to very low-income households and thirty-five (35) to low-income households, pursuant to recorded affordability restrictions.

2. The project is consistent with the 5-Year Implementation Plans for the Civic Plaza Redevelopment Project Area.

The 5-Year Implementation Plan set the objective of encouraging the creation of housing, including affordable housing. The proposed project accomplishes this objective by creating and/or preserving fifty-nine (59) affordable rental units.

3. The consideration is not less than the fair reuse value for this use and with the affordability restriction to be recorded on the property.

The documentation supporting this value and the findings described above are included in the Summary Report Pursuant to Section 33433 of the California Community Redevelopment Law, a copy of which has been made available at the City Clerk's Office as part of the required public notice documents.

PUBLIC OUTREACH

The public had an opportunity to present testimony during the City Council meetings on April 15, 2003 and June 24, 2003, as well as the TEFRA Hearing, before the Director of Finance on April 26, 2003 and a second TEFRA Hearing on February 9, 2004. Additionally, notice of the subject DDA will be published in the San José Post Record on April 9, and April 16, 2004.

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COORDINATION

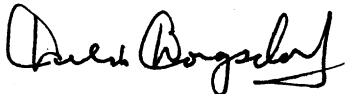
The preparation of this report has been coordinated with the Department of Planning, Building and Code Enforcement, the Office of the City Attorney, and the Agency's General Counsel.

FISCAL ASPECTS

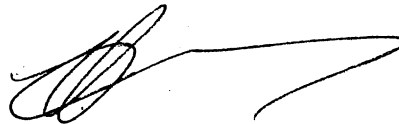
With the sale of the property for an appraised value of \$5,250,000, the existing CalHFA loan of \$2,393,469 will be repaid and the City will take back a note in an amount of up to \$2,225,000. The City will also receive a payment of approximately \$500,000 at the close of escrow. This funding is consistent with the Council approved Budget Strategy Memo, adopted on February 4, 2003.

CEQA

Exempt (PP03-03-090)



DEL D. BORGSDORF
City Manager



HARRY MAVROGENES
Interim Executive Director,

Attachments

