



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 11/03/2020

ITEM NO: 5

DATE: October 27, 2020
TO: Mayor and Town Council
FROM: Robert Schultz, Town Attorney
SUBJECT: Approval of an Additional Affordable Housing Loan in the Amount of \$600,000 for the Total Amount of \$1,200,000 to Develop Affordable Housing on the Property Located on 20 Dittos Lane and Authorize the Town Manager to Execute all Documents Needed to Complete the Transaction in a Form Acceptable to the Town Attorney.

RECOMMENDATION:

Approve an additional Affordable Housing Loan in the amount of \$600,000 (Attachment 1) for the Total amount of \$1,200,000 to develop affordable housing on the Property Located on 20 Dittos Lane and authorize the Town Manager to execute all documents needed to complete the transaction in a form acceptable to the Town Attorney.

BACKGROUND:

On October 16, 2018, the Town Council approved an exclusive negotiating agreement with Sarah Chaffin ("Developer") for the development of affordable housing at 20 Dittos Lane.

On February 11, 2020, the Developer received approval for the Architectural and Site application and Subdivision Application which included requests for a lot line adjustment, subdivision of one lot into three, and construction of two single-family residences on property zoned R1-D. In addition, the developer has submitted the grading permit application to the Town.

On June 2, 2020, the Town Council adopted a resolution approving the land purchase agreement and first amendment to the agreement for the sale of 20 Dittos Lane for the development of affordable housing on the property. The property is currently in escrow.

PREPARED BY: Robert Schultz
Town Attorney

Reviewed by: Town Manager, Town Assistant Manager and Finance Director

SUBJECT: Affordable Housings Loan for 20 Dittos Lane Property

DATE: October 27, 2020

PAGE: 2 of 3

Discussion:

Section 2.6 of the First Amendment to the Purchase and Sale Agreement states the terms of the first affordable loan agreement of \$600,000 as follows:

Section 2.6 Loan Agreement. Prior to Closing, Town agrees to loan Buyer the sum of \$600,000.00, with zero interest, amortized over 55 Years from the Inclusionary Fund. The Buyer's obligation to pay the Town Loan shall be evidenced by a Promissory Note and secured Deed of Trust, and shall be used solely for construction and permanent financing of the Improvements. The Town agrees to subordinate the Town's Deed of Trust to Senior Liens,

The developer is seeking access to an additional zero-interest loan of \$600,000 from the Town's Inclusionary (BMP) Fund. Due to restrictions associated with COVID-19 and the subsequent economic disruptions, the developer wants to ensure that once construction begins, the project will be completed regardless of the pace of fundraising.

Attachment 1 is a draft of the second Promissory Note for the additional amount of \$600,000. The second loan contains two key terms that are different than the first loan. This loan also has a 55-year period for amortized payments, but the term of loan is only 10 years. The 10-year term will ensure that regardless of the current or future fundraising environment, the developer has an incentive to continue fundraising. Second, this loan will require the borrower to pay to the Town all proceeds received from the sale of any Affordable unit to pay off the loan.

CONCLUSION:

The additional affordable housing loan of \$600,000 will ensure the development of four (4) affordable housing units are built at 20 Dittos Lane.

COORDINATION:

This staff report was coordinated with the Town Manager and the Finance Department.

FISCAL IMPACT:

The proposed funding source for the loans has been identified as the General Fund Below Market Housing Deposit account. The promissory notes will be recorded and tracked as loans receivables in the Town General Fund balance sheet. The promissory notes do not provide for annual or semi-annual interest payments on the total amount loaned. As a result, staff anticipates lower interest earned on the Below Market Housing Deposit account.

ENVIRONMENTAL ASSESSMENT:

SUBJECT: Affordable Housings Loan for 20 Dittos Lane Property

DATE: October 27, 2020

PAGE: 3 of 3

This is not a project defined under CEQA, and no further action is required.

Attachment:

1. Promissory Note