

RESPONSE TO COUNCIL QUESTIONS RE: 4/25/17 CITY COUNCIL AGENDA

Agenda Item #: 1.A.

Title: Approve the List(s) of Claims and Bills Approved for Payment by the City Manager

Council Question: On the payment for \$279,671.45 to Crescent Terrace Inc, please describe the nature of the payment(s) and a brief overview of who the "customers" are and the program under which these loans are disbursed. Further, please describe the internal financial control processes in place to ensure the payment was duly authorized and properly accounted for.

Staff Response: The nature of the payment was a disbursement of CDBG loan funds under a 2016 City loan for the rehabilitation of Crescent Terrace, an affordable apartment complex for lower-income seniors. This loan commitment was approved by Council on May 5, 2015 (RTC 15-0158) as part of the 2015 HUD Action Plan approval. The loan consisted of \$500,000 in CDBG funds and \$550,000 in HOME funds. Funding for this loan was included as Project 831740 in the FY 2015/16 Projects Budget, approved by Council in June 2015. The form of the loan agreements, including the project budget, was approved on April 19, 2016 (RTC 16-0319).

Crescent Terrace, located at 130 Crescent Avenue, was built in 1986 by MidPen Housing and is owned by an affiliate of MidPen Housing (Crescent Terrace, Inc.). This disbursement reimbursed the borrower for eligible rehabilitation project costs consistent with the project budget approved when the loan agreements were approved by Council in 2016. The costs funded by this disbursement included primarily hard construction costs and a small amount of soft costs such as architecture/engineering.

The internal financial control process begins with the review of the reimbursement request submitted by MidPen staff, which includes detailed receipts of payment to the contractors involved for which reimbursement is being requested. Three Housing staff (Housing Programs Analyst, Senior Rehabilitation Specialist, and Housing Officer) review these receipts and all related documentation to ensure that the reimbursement request is eligible under CDBG regulations and consistent with the project budget approved by Council. In addition, the Senior Rehabilitation Specialist attends regular construction team meetings for the project and verifies that each phase of the work is completed, and that Building, or other development review Divisions as applicable, have inspected the work completed for which reimbursement is being requested, and those inspections were passed, before he will approve the loan disbursement requested. All of this is documented and retained in the project files for possible HUD and/or City audits.

Agenda Item #: 1.B.

Title: Award of Bid No. PW17-22 for the Calabazas Creek Bridge Replacement Project at Old Mountain View-Alviso Road, and Award Contracts for Phase 2 Construction Management Services and Engineering Services During Construction (F17-111 and F17-112)

Council Question: Please provide a URL or other source where renderings of the fully completed design from January 2017 can be viewed.

Staff Response: The concepts and materials presented to Council in July 2016 can be found at:

<https://sunnyvaleca.legistar.com/LegislationDetail.aspx?ID=2787962&GUID=4D14A34A-7C21-47AE-8345-9EDAB0B1B323&Options=&Search&FullText=1>.

The final bid set plans are not online, however, they follow the concept previously presented to Council. The plans are available upon request. Please contact Manuel Pineda, Director of Public Works, at 408-730-7426.

Agenda Item #: 1.C.

Title: Loan Amendment to Convert 2004 Housing Mitigation Loan on Moulton Plaza Affordable Housing Project from Partially Deferred to Fully Deferred

Council Question: In Staff's opinion, is MidPen's inability to re-pay the loan as agreed a sign that they over-borrowed in the first place? To Staff's knowledge, did MidPen engage in debt restructure conversations with either of the other lenders before approaching Sunnyvale? If not, why not?

Staff Response: As noted in the staff report, the structure of the current City loan was often used by the City in the late 1990s/early 2000s, but it is not consistent with current best practices for junior loans by public/quasi-public entities to support affordable housing projects ("soft debt"). The City has approved similar loan restructures for several other City loans made around the same time with similar terms which have proven over time not to be feasible for affordable housing projects (i.e., Eight Trees, Socorro, Senior Group Homes). The problem is in the required fixed payments of a certain amount to become due at a certain point in time, typically 10-15 years after the project was completed, based on cash flow projections made at time of loan origination that have since proven not to be accurate. For affordable housing projects, which have strict limits on rents that cannot be adjusted to account for operating costs, the project's ability to make loan payments on soft debt is primarily related to two things: the number of project-based vouchers/vouchered tenants in the project, and the current operating costs, much of which consists of project utilities (water, sewer, trash, heating, etc.), only a small portion of which is billable to the tenants. Cash flow projections used at the time, upon review, often underestimated future utility costs and over-estimated the number of vouchered units that would be in the project, resulting in overly optimistic projections of the project's ability to make the required fixed payments on the City's junior loans, in addition to the hard debt from a senior lender.

Regarding discussions with the senior and other lenders on this project, MidPen staff will be available to respond to Council questions during the Council meeting.

Agenda Item #: 1.D.

Title: Authorize the City Manager to Enter into Agreement with Kimley Horn and Associates to Complete the Environmental Document to Amend the Moffett Park Specific Plan and Rezone 1050 & 1060 Innovation Way (Onizuka) and Approve Budget Modification No. 39

Council Question: Page 1 of the staff report states: "The amendment to the Moffett Park Specific Plan will look at removing the restriction on the use of the development reserve with the current zoning of Moffett Park Industrial zoning district (MP-I)." What restriction

on the use of the development reserve would be potentially removed in amending the MPSP? In what way would removing this restriction achieve the actions taken by the City Council on February 7, 2017?

Staff Response: The Moffet Park Specific Plan states that the development reserve is not available for the military parcels, which would exclude the Onizuka site and the Navy site. Lifting the restriction would allow the sites to have access to the development reserve and potentially develop to more than 35% FAR (the current base zoning). The Council action on February 7, 2017 (RTC 16-0664 Next Steps and Possible Options for the Sale of Property Located at 1050 & 1060 Innovation Way [Onizuka] and approval of Budget Modification No. 28) included a study of removing the restriction and whether the base zoning of MP-I should be kept or modified to MP-TOD.