



City of Sunnyvale

Agenda Item

22-0817

Agenda Date: 9/21/2022

REPORT TO HOUSING AND HUMAN SERVICES COMMISSION

SUBJECT

Recommendation to City Council to Award Conditional Funding (loans) for \$16 Million in Housing Mitigation Funds and Below Market Rate In-Lieu Funds for the Pre-development, Development and/or Rehabilitation of Four Affordable Housing Developments.

BACKGROUND

On July 18, 2022, a Notice of Funding Availability ("NOFA") was issued by the Housing Division for loans for the construction, land acquisition, or rehabilitation of affordable housing developments to be funded with the City's Housing Mitigation Funds ("HMF") and Below Market Rate In-Lieu Funds ("BMR"). A total of \$16 million in HMF and BMR funds was made available through the NOFA. The previous NOFA for Housing Mitigation Funds was released in 2019 for \$26 million.

Housing Mitigation Funds are the collection of Housing Impact Fees charged to mitigate the demand for affordable housing from the development of new industrial, office, retail, lodging or other commercial development. BMR Housing In-Lieu Fees are also collected as a sub-fund of the Housing Mitigation Fund from the development of residential units. Projects funded using City Housing Funds are deed restricted for a minimum of fifty-five years to ensure quality affordable housing for decades to come. All funds are used in accordance with the Mitigation Fee Act.

The NOFA announcement was distributed broadly to housing developers and non-profit agencies throughout the entire Bay Area region. Four complete applications were received by the August 15, 2022 deadline and include funding requests that range from \$500,000 to \$15 million, for a total of approximately \$18.5 million in funding requests.

EXISTING POLICY

General Plan, Housing Element, Goal HE-1

Assist in the provision of adequate housing to meet the diverse needs of Sunnyvale's households of all income levels.

Policy HE-1.1 Encourage diversity in the type, size, price and tenure of residential development in Sunnyvale, including single-family homes, townhomes, apartments, mixed-use housing, transit-oriented development, and live-work housing.

Policy HE-1.2 Facilitate the development of affordable housing through regulatory incentives and concessions, and/or financial assistance.

Sunnyvale Municipal Code, Title 19 Zoning

Chapter 19.75. HOUSING IMPACT FEES

19.75.010. Findings and purpose.

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- (b) Purpose. This chapter requires the payment of housing impact fees for certain types of development to mitigate the impact of nonresidential and residential development on the need for affordable housing in the city of Sunnyvale and to implement the housing element of the city's general plan and California Government Code Section 65583(c), which expresses the state housing policy that requires cities to assist in the development of adequate housing to meet the needs of lower-income households. Housing impact fees are placed in the city's housing mitigation fund and used to support the development of affordable housing within the city.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" with the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(4) in that it constitutes a creation of a conditional funding mechanism and does not obligate the City to ultimately approve the project. CEQA review of the project will be conducted by the Planning Division as part of the development review process, when there is sufficient information for meaningful environmental analysis.

DISCUSSION

Once applications were received, a NOFA Review Committee ("Committee") was established and made up of three Community Development Department (CDD) staff members (Housing Programs Analyst, Housing Programs Specialist, Senior Rehabilitation Specialist). The Committee ranked each application based on the structured point system outlined in the NOFA (Attachment 2). Based on the points allocated by the Committee, the applications were ranked 1 through 4. Funding was then recommended based on the overall rankings and their amount requested. It should also be noted that the minimum threshold for a loan is \$500,000, and applications requesting the minimum amount can be approved or denied, but not reduced.

Application Summaries:

Proposed Project One - Orchard Gardens

The Orchard Gardens proposal was submitted by First Community Housing (FCH) and consists of a request for \$2.5 million. The requested funds would go toward the rehabilitation and expansion of an existing affordable housing development located at 245 W. Weddell Drive. There are two existing apartment complexes on the site totaling 62 units: Parkview and Sunburst Apartments. The proposed plan is to demolish the Sunburst Apartments, which contains 32 units, and rehabilitate the Parkview Apartments, which contains 30 units. Additionally, the proposal calls for new construction of a 93-unit building (6-stories) facing Weddell Drive, for a total of 123 units on site. The total projected cost for this development is approximately \$107.2 million. City funds are being requested to fill a final financing gap and cover excess costs identified with the recent rise in interest rates and construction costs.

The unit breakdown for this development will be 63 extremely-low-income units, 31 very-low-income units, and 24 low-income units with two unrestricted manager's units. The unit type will range from 1-bedroom to 3-bedroom apartments and the proposed project will provide 60 total units of supportive housing, including 31 rapid rehousing units, 14 permanent supportive housing units, and 15 units for individuals with intellectual and developmental disabilities. This development was the first in Sunnyvale to receive an allocation of Measure A funding. The City awarded \$7.5 million in HMF funds in 2020; - therefore, the total commitment of HMF funds to this project would be \$10 million if this

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request is fully funded, or a total of \$81,300 per unit.

FCH intends to fill the remaining funding gap through the State's Infill Infrastructure Grant (IIG) program, which the project has applied for, and through Low Income Housing Tax Credits, which the project intends to apply for in spring of 2023. If awarded, FCH is open to extending the term of affordability to 65 years pending permanent financing requirements.

Proposed Project Two - 1178 Sonora Court

The 1178 Sonora Court proposal was submitted by MidPen Housing and consists of a request for \$15 million. The requested funds will be utilized for development costs of a 1.2-acre parcel at 1178 Sonora Court (City-owned land within the Lawrence Station Area Plan District) to construct a 7-story (5-story residential over 2-story podium), 176-unit affordable apartment project. The target population, specific to occupancy, is extremely low-income to low-income families, and the proposed unit types range from studios to 3-bedrooms.

The entitled project would feature 87 extremely-low income units, with 44 very-low-income units, and 43 low income units. Forty of the units will be designated for Permanent Supportive Housing households. The anticipated project cost is approximately \$150.2 million. City funds are being requested to fill the financing gap anticipated for this development.

MidPen has full site control of the property, as they lease the land from the City. Additionally, this project was awarded \$14 million in HMF funds in 2020; therefore, the total funding commitment of HMF funds to this project would be \$29 million if this request is fully funded, or a total of \$164,773 per unit

MidPen intends to fill the remaining funding gap through a combination of the State's IIG program and Multifamily Housing Program (MHP), which the project has applied for. Additionally, MidPen intends to apply for the State's Affordable Housing and Sustainable Communities (AHSC) program in spring of 2023 and for Low Income Housing Tax Credits in spring of 2024. If awarded, MidPen is open to extending the term of affordability to 65 years, pending permanent financing requirements.

Proposed Project Three - 1171 Sonora Court

The 1171 Sonora Court proposal was submitted by MidPen Housing and consists of a request for \$500,000. This project is located in close proximity to 1178 Sonora Court and the proposed project would be an 8-story, 192-unit multi-family apartment building. The unit sizes proposed range from studio to 3-bedroom - and about 75% of the units will be designated for extremely-low-income (76-units) and very-low-income (66-units) households, with the unit balance being designated for low-income-households (48-units). Additionally, about 38-units, out of the total unit count, will be designated for Permanent Supportive Housing households. The total project cost is approximately \$166 million.

It is important to note that this project is in the very early stages, and any funding awarded will go toward predevelopment, soft costs like engineering and design/architecture, which will ultimately assist the project in applying for additional funding sources to make the project a reality. MidPen anticipates submitting a formal planning application for this project in late 2022.

MidPen has full site control of the property, and this project has not received prior funding allocations

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from the City. There is no other City funding in this project to date, and therefore this funding request of \$500,000 would equate to \$2,604 per unit.

MidPen is a regional leader in affordable housing and has developed over 9,600 units of affordable housing and successfully completed 11 projects in Sunnyvale. MidPen acquired the property in June of 2021 with the intention of creating this project and is currently in the initial conceptual design phase. If awarded predevelopment funds, MidPen will complete architectural drawings, engage in community outreach, and apply for Planning entitlements in spring 2023. Predevelopment funding will enable the project to seek additional sources of funding, including IIG, AHSC, and County Project-based Vouchers before applying for Low Income Housing Tax Credits in spring of 2025.

Proposed Project Four - Carroll Street Inn Rehabilitation

The Carroll Street Inn Rehabilitation proposal was submitted by MidPen Housing and consists of a request for \$500,000. The requested funds would be for rehabilitation of an existing multi-family community, Carroll Street Inn, which was built in 1994. Carroll Street Inn consists of 122 very-low income Single Room Occupancy ("SRO") units, including a manager's unit. The rehabilitation efforts would focus on: replacing common area floors, upgrading common area kitchens to be ADA accessible, and improving certain kitchenettes in individual rooms. Additionally, the proposal requests to install solar panels for energy efficiency measures and enhancing the current security system.

MidPen has full site control of the property and is prepared to move forward with the projects if funding is awarded as many of the rehabilitation projects are urgent in nature. This funding request, if awarded in full, would be for approximately \$4,100 per unit. It is important to note that the City previously issued a \$964,750 loan, using HOME Investment partnership funds, in 1994 to support the acquisition of Carroll Street Inn. Therefore, if the loan request for rehabilitation was awarded in full, the City's total investment in Carroll Street Inn to date would be \$12,006 per unit.

MidPen has successfully operated the project since its construction in 1994. The project has a sound operating budget and has complied with affordability requirements and regulatory audits throughout the life of the project. Carroll Steet has 121 Single Room Occupancy units, 51 which are HOME funded - and many of the units are supportive units serving the most vulnerable. All units are designated for Very Low Income.

Rankings and Application Recommendations:

The Committee met to discuss and rank the four project applications. The projects were ranked in the following order based on the ranking form in Attachment 2:

1. Orchard Gardens (*First Community Housing*)
 - This project was ranked highest due to a variety of reasons as outlined on the NOFA Scoring Sheet including, but not limited to, agency capacity and expertise in developing and managing similar projects, confirmed site control, project readiness, and the inclusion of extremely low-income and supportive units for certain special needs populations.
2. 1178 Sonora Court (*MidPen Housing*)
 - This project was ranked the second highest due to a variety of reasons as outlined on the NOFA Scoring Sheet including, but not limited to, proximity to public transit, agency expertise in developing and managing similar projects and the inclusion of extremely low-income and supportive units for certain special needs populations. This new

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development project scored lower than Orchard Gardens due to the larger financing gap still in place and not as shovel ready.

3. 1171 Sonora Court (*MidPen Housing*)

- This project was ranked third highest due to a variety of reasons as outlined on the NOFA Scoring Sheet including, but not limited to, highest volume of units, proximity to public transit and agency expertise in developing and managing similar projects.

4. Carroll Street Inn Rehabilitation (*MidPen Housing*)

- This project was ranked fourth highest due to a variety of reasons as outlined in the NOFA Scoring Sheet, including but not limited to, the need for rehabilitation to improve the quality of life for residents of Carroll Street Inn, project readiness, and the agency's expertise in managing rehabilitation projects. This proposal was lower in ranking due to the low matching fund percentage, and the absence of units designated for extremely-low-income households.

Based on these rankings, the Committee recommends the following funding awards, below, in order of final ranking.

| Applicant | Project | Funding Amount Requested | Final Score | Committee Recommendation | Recommended Funds Per Unit |
|-------------------------|---------------------|--------------------------|-------------|--------------------------|----------------------------|
| First Community Housing | Orchard Gardens | \$2.5 million | 1 | \$2.5 million | \$20,325 |
| MidPen Housing | Sonora Court (1178) | \$15 million | 2 | \$12.5 million | \$71,023 |
| MidPen Housing | Sonora Court (1171) | \$500,000* | 3 | \$500,000 | \$2,604 |
| MidPen Housing | Carroll St. Inn | \$500,000* | 4 | \$500,000 | \$4,100 |
| Total | | \$18,500,000 | | \$16,000,000 | |

*Minimum Loan Amount is \$500,000.

Applicants awarded funding through this NOFA will be given a Conditional Award Letter, valid for two years while applicants finalize remaining funding (minus tax credits) and planning entitlements. If any successful applicant fails to meet the funding timelines outlined in the NOFA, the conditional funding award will be withdrawn, and the applicant must resubmit during a future NOFA round. Timelines may only be extended by a formal request and subsequent approval by the Community Development Director.

Next Steps:

After the Housing and Human Services Commission makes a recommendation to the City Council on September 21, 2022, the City Council will consider the item on October 25, 2022. On October 26, 2022, Housing Division staff will send official Conditional Commitment Letters to the successful applicants. This timeframe will allow applicants to, if needed, meet the March 2023 Low Income Housing Tax Credit application timeline and upcoming state loan and grant funding deadlines. Final funding agreements will be completed and signed prior to building permit issuance.

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FISCAL IMPACT

Approving these funding recommendations would conditionally commit \$16 million in Housing Fund revenue to these projects. Based on the FY 2022/23 Adopted Budget, this will reduce the Housing Fund reserve balance to \$60.1 million.

The preliminary FY 2021/22 year-end fee revenue estimate for the Housing Fund shows very strong returns at approximately \$26.8 million over the current year projection of \$21.1 million with several large projects making payment. The payment of mitigation and impact fees cannot be precisely timed as they are based on specific milestones of each development project. The FY 2022/23 fee revenue estimate will be reconciled and updated based on the status of projects in the development pipeline as part of FY 2023/24 budget development. The Housing Fund is expected to continue to have healthy reserves to weather any near-term economic downturn, and sufficient funding for operating expenses after the \$16 million is allocated.

The purpose of these funds is for pre-development, development, or rehabilitation of affordable housing projects, therefore the recommended action is consistent with its purpose and various City policies regarding affordable housing. Upon meeting all conditions, a budget appropriation will be recommended for approval for each project, either through the regular budget process or through a budget modification.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

ALTERNATIVES

Recommend that City Council:

1. Award conditional funding commitments for \$16 Million in Housing Mitigation Funds and Below Market Rate In-lie Funds for the pre-development, development and/or rehabilitation to the projects listed in Attachment 3 to the report.
2. Award conditional funding commitments for \$16 Million in Housing Mitigation Funds and Below Market Rate In-lie Funds for the pre-development, development and/or rehabilitation to the projects listed in Attachment 3 with modifications.
3. Do not recommend any conditional funding commitments.

RECOMMENDATION

Alternative 1: Recommend that Council award conditional funding commitments for \$16 Million in Housing Mitigation Funds and Below Market Rate In-lie Funds for the pre-development, development and/or rehabilitation to the projects listed in Attachment 3 to the report.

Prepared by: Leif Christiansen, Housing Programs Analyst

Reviewed by: Jenny Carloni, Housing Officer

Reviewed by: Trudi Ryan, Director, Community Development

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

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1. Reserved for Report to Council
2. Sample NOFA Scoring Sheet
3. Funding Recommendations