



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Consider Conditional Award of Up to \$5 Million in Housing Mitigation Funds to MidPen Housing for New Affordable Housing Project to Be Developed at 460 Persian Drive

BACKGROUND

The City received an average of nearly \$5.8 million in Housing Mitigation (HM) fee and loan repayment revenues to the HM fund in each of the prior two fiscal years (FY 2012-13 and 2013-14), and is projected to receive over \$6.8 million in HM fees alone in the current fiscal year (FY 2014-15). In addition, the City receives Below Market Rate (BMR) in-lieu fees and various other deposits to the Combined Housing Fund (Fund 70), as shown in the [Long Range Financial Plan <http://sunnyvale.ca.gov/Portals/0/Sunnyvale/FIN/FY%2014-15a%20Vol%20I%20-%20Part%20II_VF.pdf>](http://sunnyvale.ca.gov/Portals/0/Sunnyvale/FIN/FY%2014-15a%20Vol%20I%20-%20Part%20II_VF.pdf) on page 195 of the Adopted Budget. Staff plans to issue a similar request for proposal (RFP) for a combined total of \$8-10 million in HM, BMR In-Lieu, and/or Redevelopment Agency (RDA) Housing Set-Aside funds, to be available for new affordable housing proposals in the coming fiscal year, as nearly \$20 million is projected to be available in the Combined Housing Fund reserve as of July 1, 2015. Local project funding requests for new housing projects tend to be in the \$4 to \$7 million range, due to the rising cost of land, construction, and the local funding scoring formulas used by the California Tax Credit Allocation Committee (CTCAC), which provides the bulk of the financing for most affordable rental projects.

In February of 2014 the Housing Division released an RFP for new affordable housing projects to be funded with the City's Housing Mitigation Fund, which is generated from impact fees charged to new high-intensity industrial developments. A total of \$6 million was made available through that RFP, which, if fully awarded, would utilize only about one-third of the total funds available (\$18.7 million) in the Housing Mitigation Fund reserve in FY 2014-15, according to the Adopted Budget. One award of \$1 million was approved by Council as part of the FY 2014-15 Adopted Budget, and the remaining \$5 million has remained available since that time. The RFP application date was extended for an indefinite period until all available funds were awarded.

In mid-January 2015, Housing staff received a proposal from MidPen Housing requesting \$5 million for a proposed new project at 460 Persian Drive in Sunnyvale. A summary of the proposed project is provided in **Attachment 1**. The Housing staff scoring committee reviewed and scored the project shortly after submittal, and the applicant presented the proposal to the Housing and Human Services Commission (HHSC) at its January 28, 2015 meeting. Staff recommended a conditional award of the requested assistance; the staff scoring sheet is provided in **Attachment 2**. The HHSC voted 6-0-1 (with one absence) to recommend that Council make the requested conditional award of \$5 million to MidPen for this project. Minutes of that meeting are provided in **Attachment 3**.

EXISTING POLICY

General Plan, Housing Element, Goal A

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

- Policy A.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 A.2 Facilitate the development of affordable housing through regulatory incentives and concessions, and/or financial assistance.

ENVIRONMENTAL REVIEW

CEQA review of the project will be conducted by the Planning Division as part of the development review process. The proposed award will be conditioned on the project's completing the environmental review and obtaining all required entitlements and development permits.

DISCUSSION

The proposal consists of a request for \$5 million for development of a new affordable rental project of approximately sixty apartments. The project site is an industrial parcel of 1.35 acres located at 460 Persian Drive in north Sunnyvale. The number of units may range from 55 to 65 units, with the exact number to be determined during the environmental review and planning application process. For purposes of the funding application review and evaluation process, staff used the 60-unit figure. The units will be affordable to lower-income households earning up to sixty percent (60%) of area median, with the majority of the units further restricted to extremely low and very low income levels. The applicant has agreed to reserve at least 3 of the units for households transitioning out of homelessness. The project will include a range of one- to three-bedroom units, with a total cost estimated at slightly over \$33 million.

The primary source of funding for the project would be federal tax credits for low-income housing, with additional sources to include one or more of the following: a State Infill Infrastructure Grant, Affordable Housing Sustainable Communities (i.e., "Cap-n-Trade") funding, County HOME funds, various local and/or regional housing impact fees, and/or possibly project-based Section 8 or other type of vouchers.

The project site is in north Sunnyvale near the Fair Oaks/Tasman VTA light rail stop, in one of the few remaining "Industrial to Residential" or ITR parcels in this general area. The site currently includes one large industrial building currently occupied by several small businesses including a market, a palm reader, and a beauty salon. The applicant has provided a relocation assistance plan to ensure the businesses will be provided relocation assistance generally consistent with federal requirements, although no federal funding has been committed to the project yet.

If Council approves a conditional funding commitment for this project, MidPen will continue its efforts to acquire the project site. Final funding commitments are typically issued after completion of all of the standard funding conditions, such as obtaining site control, all required entitlements, and written commitments for all other financing required to build the project, except for the tax credits. The Housing Mitigation funds are provided in the form of a long-term loan, usually with deferred interest and/or residual receipt payments. Staff has discussed the proposed terms for this funding commitment with the applicant, summarized in **Attachment 4**, and feels the proposed terms are

favorable to the applicant and the City.

FISCAL IMPACT

The recommended action will not impact the General Fund. The action would conditionally commit \$5 million from Fund 70-100, the Housing Mitigation Fund, to this project for a period of up to two years. If the project satisfies all of the conditions, the funds would likely be disbursed to the applicant in early 2016. The funds would be provided initially in the form of a bridge loan which would be deferred until completion of construction, with interest at 3% simple payable at that time. The principal would be converted into a permanent loan at project completion, for a term of approximately 55 years, with the terms described in **Attachment 4**. This fund exists for the purpose of funding affordable housing projects of this type, so the recommended action is consistent with its purpose and various city policies regarding affordable housing.

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

1. Award a two-year conditional commitment of Housing Mitigation funds in the amount of \$5 million to MidPen Housing for the housing project proposed for development at 460 Persian Drive in Sunnyvale, generally consistent with the terms described in Attachment 4, and direct staff to include the funds committed to this project in the FY 2015-16 Projects Budget.
2. Award a conditional funding commitment to MidPen Housing with modified terms.
3. Provide other direction to staff regarding this proposal.

STAFF/COMMISSION RECOMMENDATION

Alternative 1: Award a two-year conditional commitment of Housing Mitigation funds in the amount of \$5 million to MidPen Housing for the housing project proposed for development at 460 Persian Drive in Sunnyvale, generally consistent with the terms described in Attachment 4, and direct staff to include the funds committed to this project in the FY 2015-16 Projects Budget.

The site for this project is zoned appropriately for a project of the type and size proposed, and the project is consistent with the goals of the RFP, the City's Housing Element, and local and regional land use policies and plans. In addition, the project appears to qualify for a variety of sources of matching funds needed to finance the entire project cost. The staff committee evaluated the proposal and awarded it an average score of 89 points out of 100. Furthermore, the original RFP was issued nearly one year ago, no other proposals have been received since the initial round, and there is still \$5 million available through this RFP. Staff has been in regular communication with other prospective applicants and none have indicated plans to apply for funding at this time, although several continue to search for sites in Sunnyvale and may apply in future funding rounds. Staff plans to issue an additional RFP within the current fiscal year to provide opportunities for additional projects to be proposed in the next six to twelve months.

Prepared by: Suzanne Isé, Housing Officer

Reviewed by: Hanson Hom, Director, Community Development Department

Reviewed by: Robert A. Walker, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Proposal Summary
2. Scoring Sheet
3. Minutes of January 28, 2015 Housing and Human Services Commission Meeting
4. Proposed Terms of Conditional Commitment