



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### REPORT TO COUNCIL

#### **SUBJECT**

Approve the Issuance of Request for Proposals to Develop a New Affordable Housing Project on City Property Located on Charles Street (Block 15)

#### **REPORT IN BRIEF**

In July 2015, the City Council authorized the purchase of four additional parcels in "Block 15" of the Downtown Specific Plan area to increase the City's ownership of the block to approximately 1.57 acres. In December 2015 the Council held a study session and provided direction on the future use of approximately 1.44 acres of City owned property in Block 15 for affordable housing, with an emphasis on projects that could provide at least a portion of the housing for special needs households (i.e., seniors, disabled adults).

Staff has prepared a draft Request for Proposals (RFP) (Attachment 1), consistent with Council's expressed interest in using this property for affordable housing. The RFP will be used to solicit proposals in order to identify and select a qualified affordable housing developer. Staff will evaluate the proposals received in response to the RFP and establish a staff committee to score and rank the proposals. Once staff has identified a preferred developer for Council's consideration, an Exclusive Negotiating Agreement ("ENA") would be prepared for Council's review and approval. The ENA would specify a period of time (e.g., 12 months with possible extension at City's discretion) for the developer to further develop the project plans. Following Council approval of the ENA, the selected developer would begin working with staff on predevelopment tasks such as a refined project description, financing plan, development review, and the terms of an Affordable Housing Developer Agreement ("AHDA").

Staff recommends that the Council approve the issuance of the Request for Proposals (RFP) to develop a new affordable housing project on City property located on Charles Street (Block 15).

#### **BACKGROUND**

In July 2015, the City Council authorized the purchase of four additional parcels in "Block 15" of the Downtown Specific Plan area to increase the City's ownership of the block to approximately 1.57 acres. Block 15 is bounded by Charles Street, McKinley Avenue, Mathilda Avenue and Iowa Avenue. The City's land assemblage consists of six contiguous parcels totaling approximately 1.44 acres and one non-contiguous parcel of 0.13 acre, and is collectively referred to as the "Charles Street Property."

On December 15, 2015, the City Council held a study session to consider the future use of the Charles Street Property. The Council indicated the following objectives or desired outcomes for the property: 1) maintain the property in City ownership for a public benefit; 2) retain the existing land use designation for Block 15 of the Downtown Specific Plan (DSP), which is Very High Density

Residential/Retail; 3) enter into a long-term lease with an entity to develop the property for affordable housing; and 4) place a preference or allocate a portion of the housing units for seniors and/or disabled adults (“special needs” households). Attachment 2 provides a summary of the study session. The Council further discussed that the 1.44-acre site, consisting of the six contiguous parcels (referred to herein as the “Project Site” and depicted in Attachment 3), was sufficient for development of a viable affordable housing project.

Based on the Council’s direction at the study session, staff has prepared a draft RFP (Attachment 1) for the purpose of selecting a developer to begin negotiations with the City for the opportunity to develop an affordable housing project on the Project Site. The outcome of those initial negotiations would be an ENA for the opportunity to develop the project, as explained in more detail in the Discussion section below.

## **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.7:* Support collaborative partnerships with non-profit organizations, affordable housing builders, and for-profit developers to gain greater access to various sources of affordable housing funds.

*Policy A.8:* Encourage developers to use State density bonus incentive when applicable to provide affordable housing units.

**Goal E:** Promote equal housing opportunities for all residents, including Sunnyvale’s special needs populations, so that residents can reside in the housing of their choice.

*Policy E.3:* Continue to address the special needs of seniors through provision of affordable housing and housing related services.

*Policy E.4:* Continue to address the special needs of persons with disabilities through provision of supportive housing, accessibility grants, and development of procedures for reasonable accommodation.

## **Downtown Specific Plan**

### **Goals and Policies**

- A. Develop land uses set forth in the General Plan as amended by the City Council in June 2003 in an attractive and cohesive physical form that clearly identifies Sunnyvale’s downtown.
- B. Establish the Downtown as the cultural, retail, financial and entertainment center of the community, complemented by employment, housing and transit opportunities.
  - B.2. Encourage below-market-rate housing in all residential neighborhoods.
- C. Promote a balanced street system that serves all users well regardless of their mode of travel.
  - C.3. Promote the use of public transit by intensifying land use and activities near transit cores.
- D. Protect and enhance existing neighborhoods.
  - D.1. Buffer single-family neighborhoods from higher density residential or commercial uses through the use of lower building heights and privacy measures such as increased landscaping and reduction in windows along elevations that directly face single-family properties.

D.3. Encourage intensification of specified high-density residential and commercial districts while maintaining the character and density of single-family neighborhoods surrounding the downtown.

Various design principles and guidelines in the Downtown Specific Plan would be used to evaluate specific development proposals.

### **ENVIRONMENTAL REVIEW**

Approval of the issuance of an RFP does not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378(b)(5) in that it is a governmental organizational or administrative activity that will not result in direct or indirect changes in the environment. When a development project is submitted for development review, it will be reviewed pursuant to CEQA to assess its potential environmental impacts.

### **DISCUSSION**

The RFP has been drafted to implement Council’s prior direction regarding this City property. The primary goal of this RFP is not to identify or approve a well-defined and/or fully designed housing project, but to select a development team with the expertise and track record required to successfully develop affordable housing projects in the region, and with which the City feels comfortable embarking on the process of negotiating the terms of an ENA for the Project Site.

The purpose of this RFP, which combines aspects of a typical RFP and a Request for Qualifications (RFQ), is to primarily gauge developer interest and potential feasibility of projects consistent with Council’s objectives, and allow experienced housing developers to share their vision and creative ideas for the site, within the preliminary framework provided by Council. At this early stage in the process, developers will be asked to provide a preliminary development concept only, as none of them will have completed due diligence work or exploratory design and financing studies at this point.

The proposals will include key information regarding each developer’s team to allow staff and Council to consider the strengths and weaknesses of each interested party, and select the party which appears to be most qualified, for the purpose of beginning to negotiate the ENA. This selection does not guarantee that the negotiations will necessarily result in a successful ENA and/or eventual Development Agreement, or that entitlements will be granted for any particular project at this site. The selection process is the first step in a process that could, if successful, lead to an affordable housing development on the Project Site.

The ENA would provide the selected developer with the exclusive right to negotiate with the City for the right to lease the Project Site and develop an affordable housing project on it. The key terms of the lease and a refined project concept would be set forth in a subsequent Development Agreement, following an extensive process of community outreach, design development, development review, further analysis of available financing sources, and a refined financing plan. For the above reasons, the most important content of the proposals is the portion describing each development team’s qualifications, community outreach process, and how well they articulate their process for planning, designing, financing, and managing an affordable housing project. Specific project details, to the extent they are provided, are likely to evolve and change as the process moves forward through the stages described above.

## **Funding Context**

For the past several years, particularly in California, the context of affordable housing finance has been changing rapidly, with new funding sources coming on the scene from state, regional, and local entities, and older, more traditional sources becoming more competitive and/or limited than in the past. Due to this evolving funding context, it will be difficult for staff and/or the proposers to make definitive conclusions at this initial stage about the viability of future financing options, the feasibility of specific programmatic or project elements, or the optimal household/population mix that could be served by the project.

For instance, in the past several decades, almost all new affordable housing projects in this region have relied on established federal tax credit financing programs that have very specific guidelines covering items such as populations served, mix of unit sizes (bedroom counts), parking ratios, and community attributes. Recently, major new state funding sources have emerged, such as the Affordable Housing and Sustainable Communities (AHSC) and Veteran's Housing programs. Many developers are now opting to apply for AHSC and alternative funding sources. This shift has implications on project design, unit sizes, parking ratios, and other factors that affect project cost, programmatic decisions, and operating costs. Furthermore, the guidelines for these new programs are evolving quickly due to much input from competing interest groups.

For the above reason, the preliminary development concept set forth in the preferred proposal may need to evolve to effectively compete for funding under the new state programs. At this stage, the most important aspect of the RFP selection process is the developers' qualifications and initial development concept, rather than any project particulars that may be included in their proposals. Sufficient opportunity will be available during the ENA due diligence period to match or balance the City's objectives (e.g., units for "special needs" households) with the evolving program funding guidelines.

## **Legal Context**

The California Surplus Lands Act, amended on January 1, 2015, requires local agencies wishing to dispose of land they no longer require (surplus land) to prioritize use of that land to increase the supply of housing affordable to lower income households. Council has expressed interest in developing the Project Site as a City-sponsored affordable housing project, therefore the land is not surplus and the Surplus Land Act does not apply in this case. Nonetheless, the type of housing project described in the RFP, which is affordable rental housing for lower-income households, is consistent with the State's interest in prioritizing the use of appropriate public property for affordable housing as expressed in the Surplus Lands Act.

## **Project Site Details**

The Project Site is located in the southern portion of Block 15 of the DSP. Block 15 is designated for Very High Density Residential development, with an allowance for up to 152 dwellings units on the entire block, and a maximum of 10,000 square feet of retail/restaurant uses. The DSP states that, when just a portion of a block is proposed for development, the allowable units for that block shall be distributed proportionately by land area. For the Project Site, which is approximately 1.44 acres, the residential development potential allowed by the DSP translates to approximately 78 units. Additional units may be achieved within the Project Site through the State density bonus for affordable housing (up to 35 percent) and the City's green building incentive (up to 5 percent), for a total development capacity in the general range of 100 to 110 units. Staff will work with the selected proposer to obtain a survey of the property to confirm its precise acreage, and this may slightly decrease or increase the

number of units that may be developed on the site. In addition, the project may include a small commercial component at the corner of Mathilda and Iowa Avenues.

However, the City Council expressed at the study session that the maximum allowable units may not be realistic, as the project should be compatible and transition well with the adjacent residential neighborhood. The project would also need to respect the defined height limit for the block: 30 feet (two stories) along Charles Avenue, and 50 feet (four stories) along Mathilda Avenue. The required retail component may further constrain the feasible number of units for the project.

The mixed use development potential, combined with the location in a walkable downtown area near Caltrain and bus transit, makes the Project Site an ideal location for affordable housing. Development of affordable housing at this location would address the goals and objectives of the DSP and Housing Element to create affordable housing within a vibrant mixed use neighborhood in the downtown area. The site has good transit access, with proximity to the Downtown Sunnyvale Caltrain Station and bus lines along Mathilda Avenue. Future residents would have convenient access to downtown retail, dining, services, employment opportunities, and nearby open space including Washington Park and Plaza del Sol. See the Project Site and Vicinity Maps in Attachment 3 for neighborhood amenities.

Due to these locational advantages, a project at this location should be quite competitive for various affordable housing funding sources. In addition, the County has sent the City a letter expressing interest in partnering on an affordable housing project at this site, which could include County funding for development costs and/or ongoing services for any permanent supportive housing units (Attachment 4). Staff would further discuss with the County its proposed tenant selection process to ensure that City residents and individuals working in the City would have an opportunity to apply for, or possibly receive a local preference for, any County-assisted units. This conversation would occur after selecting a developer, if that developer decides to seek any County funding for the project.

Staff has drafted an RFP (Attachment 1) for Council's review and approval. The RFP includes a suggested scoring and selection criteria to be used to select a preferred developer from among those submitting proposals. The goal of this RFP is to identify a highly-qualified developer that demonstrates an understanding of the community, its affordable housing needs, and the unique attributes and opportunities in downtown Sunnyvale. The selection criteria includes factors such as the cost-effective use of the property, the proposed income levels and special needs populations that would likely be served by the project, a feasible financing and implementation plan, and successful experience in developing and managing affordable housing.

### ***Submittal Requirements***

The RFP requires the following types of information to be submitted by each proposer (see **Attachment 1** for complete list):

- Statement of Interest
- Applicant qualifications with past project experience and letters of reference
- Project description that address items such as project objectives, proposed development program, project size, unit mix, target clientele (including special needs population), tenant selection process, and tentative project schedule
- Preliminary financing plan including any requested City financial assistance and proposed matching funds
- Community outreach plan

- Tenant selection plan

### ***Evaluation and Selection Criteria***

All proposals will be evaluated by a staff scoring committee established by the City Manager. Proposals would be scored and ranked based on the following types of criteria and the scoring sheet provided in the RFP (see **Attachment 1** for details). The outcome of this process would be a staff-recommended preferred developer for the Council's consideration. The following types of criteria will be used in the evaluation and selection process:

- Project objectives
- Priority housing needs addressed by the proposal (including "special needs" households)
- Relevant experience developing affordable housing projects
- Financial capacity
- Leverage
- Community outreach plan
- Tenant selection plan

### ***Timeline***

The tentative timeline for the project is as follows, subject to further adjustment based on discussions with the preferred developer (Council actions shown in bold):

<b>Target Date</b>	<b>Milestone</b>
<b>April 12, 2016</b>	<b>Council approval of issuance of RFP</b>
April 15, 2016	Release RFP
May 30, 2016	Deadline to submit proposals
June - July, 2016	Staff evaluation process; may include proposer interviews at staff discretion
August 2016	Council discussion of preferred developer and preliminary ENA terms; staff prepares ENA
<b>September 2016</b>	<b>Council approval of ENA with preferred developer</b>
October 2016 - September 2017	Developer due diligence period: community outreach, design development, refinement of financing plan, programmatic analysis; staff negotiates and prepares Affordable Housing Developer Agreement (e.g. ground lease, loan and regulatory terms, project timeline and prerequisites)
<b>October 2017</b>	<b>Council approval of Affordable Housing Developer Agreement</b>
January - December 2017	Land use entitlement process; Planning Commission consideration
January 2018	Enter into and record ground lease, loan documents, regulatory agreement
January 2018 - June 2019	Developer completes financing, obtains building permits and begins construction

Once staff has identified a preferred developer for Council's consideration, an ENA would be prepared for Council's review and approval. The ENA would specify a period of time (e.g., 12 months with possible extension at City's discretion) for the developer to further develop the project proposal. During this period, the City and developer would negotiate the terms of the Affordable Housing Developer Agreement (AHDA), which would set the framework for the eventual long-term ground lease and regulatory agreement, and project timeline. The developer would further refine the financing plan during this time. If the developer has requested City housing funds for the project, key City loan terms would also be negotiated as part of the AHDA. Such City funds are likely to be requested by the developer to fund the ground lease and/or other development costs, such as design, construction, or soft costs.

During the ENA period, the developer would also prepare a project application and architectural plans and start the entitlement process to obtain the required land use approvals for the project. The Housing and Human Services Commission and Planning Commission would be involved in approving or making recommendations to the Council on various aspects of the project.

As a separate action, staff is considering demolition of the vacant buildings in the future, and would advise Council before taking any action. The empty houses can be a security and safety issue and it may be less costly to remove them than to provide long term monitoring.

### **FISCAL IMPACT**

The recommended action to issue the RFP will not impact the General Fund.

### **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. Approve the Issuance of the Request for Proposals (RFP) to Develop a New Affordable Housing Project on City Property Located on Charles Street (Block 15).
2. Approve the Issuance of the Request for Proposals (RFP) to Develop a New Affordable Housing Project on City Property Located on Charles Street (Block 15) with modifications.
3. Do not approve the Issuance of the Request for Proposals and provide direction to staff on an alternative action.

### **RECOMMENDATION**

Alternative 1: Approve the Issuance of the Request for Proposals (RFP) to Develop New Affordable Housing Project on City Property Located on Charles Street (Block 15).

The proposed recommendation is consistent with the goals of the City's Housing Element and Downtown Specific Plan and prior Council direction. The RFP addresses a number of City priorities, such as: providing housing for seniors, extremely low income and special needs households, and increasing affordable housing supply. In particular, staff recommends that the Council review Section IV, Proposal Evaluation and Selection Criteria, of the RFP, which will guide the selection of a preferred developer for entering into an ENA.

Prepared by: Shila Behzadiaria, Assistant Housing Planner  
Reviewed by: Suzanne Isé, Housing Officer  
Reviewed by: Trudi Ryan, Director, Community Development Department  
Reviewed by: Hanson Hom, Assistant City Manager  
Reviewed by: Walter C. Rossmann, Assistant City Manager  
Approved by: Deanna J. Santana, City Manager

**ATTACHMENTS**

1. Draft Request for Proposals
2. Summary of December 15, 2015 Council Study Session
3. Project Site and Vicinity Maps
4. County of Santa Clara Letter dated November 16, 2015