

REPORT TO COUNCIL

SUBJECT

Consider Charities Housing Development Corporation Proposal for \$403,000 in Below Market Rate In-Lieu Fee (BIF) Funds for Rehabilitation of Stoney Pine Villa Apartments at 267 W. California Avenue and Approve Budget Modification No. 9 to Appropriate Funding from the Below Market Rate Housing Fund

BACKGROUND

On March 5, 2015, staff issued a Request for Proposals (RFP) for affordable housing projects to be funded with the City's Housing Mitigation Funds (HMF). Nine million in HMF and \$1 million in Below Market Rate In-Lieu Fee Funds (BIF) were made available for new affordable housing (capital project) proposals through that RFP. One proposal was received in late 2015 and Council awarded \$6 million in HMF to First Community Housing for the proposed redevelopment of Orchard Gardens, located at 245 Weddell Drive (RTC No. 16-0302). The balance of four million in HMF and BIF funding set aside for that RFP remains available. In June 2016, staff received another proposal, in response to the March 2015 RFP, from Charities Housing Development Corporation (Charities) for rehabilitation of Stoney Pine Villa Apartments (Stoney Pine).

Charities is a non-profit affordable housing developer based in San Jose which has developed more than 1,100 housing units at 18 sites throughout Santa Clara County in the past 22 years. Charities has developed two projects to date in Sunnyvale, both with financing from various City Housing funds: Stoney Pine, in 2001, and Parkside Studios, completed in July 2015. Charities also owns two group homes for seniors on Klee Court and Wolfe Road, which were acquired in 2014 from another non-profit agency. Charities provides property management and resident services at all of its Sunnyvale properties.

In 2014 Charities applied for and was awarded \$201,000 in CDBG Revolving Loan funds by the City to complete a limited rehabilitation of Stoney Pine. Charities did not begin the project as soon as initially planned due to workload issues related to other projects then underway, including Parkside Studios and a large project in San Jose. Since receiving the CDBG award, Charities has determined that construction costs have increased and a slightly larger scope of work is needed. Therefore, after consultation with Housing staff, Charities decided to apply for a slightly larger award of BIF. If Council awards the requested funding in the amount of \$403,000 for the new proposal, staff would rescind the prior award of CDBG funds and the funds would become available for reallocation to other projects as part of the FY 2017/18 Action Plan.

The proposal was presented to the Housing and Human Services Commission (HHSC) at its July 27, 2016 meeting. The HHSC voted 6-0 (with one absence) to recommend that Council approve a one-year conditional award of BIF in the amount of \$403,000 to Charities for this project. Minutes of that meeting are provided in Attachment 5.

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.

Goal B: Maintain and enhance the condition and affordability of existing housing in Sunnyvale.

ENVIRONMENTAL REVIEW

This project is exempt from the requirements of the California Environmental Quality Act (CEQA) as a Class 1 project involving only rehabilitation of existing structures. (CEQA Guidelines section 15301 (d).) No federal funds will be used for this project, therefore federal environmental review under the National Environmental Policy Act (NEPA) is not required.

DISCUSSION

Stoney Pine is a 23-unit affordable rental complex located at 267 W. California Avenue. A vicinity map is provided in Attachment 1. The project was developed with financing from the federal "Section 811" program for development of housing for disabled tenants, and with City financing in junior lien position. Twenty-two of the units are occupied by developmentally disabled tenants and in some cases their family members, and there is one unrestricted manager's unit. Most of the units are occupied by the original tenants who moved in when the project was newly built in 2001. The property consists of four buildings massed around an open square. Three buildings are strictly residential; the fourth building contains the common room, rental and case manager offices, laundry, restroom, and one residential unit. The property includes 12 one-bedroom units, 8 two-bedroom units and 3 three-bedroom units.

Charities recently completed a physical needs assessment of the property, which determined that the property was constructed within industry standards of the time, has been well maintained over the years, and is in good overall condition. However, as the property is now 15 years old, many exterior and interior finishes are in need of repair or replacement, including: exterior painting, dry rot repair, parking lot sealing and striping, dwelling unit entry doors, carpeting, flooring, kitchen and bathroom cabinetry, all of which show signs of wear and tear. The total cost of the project is estimated at approximately \$534,000. Charities has secured a matching funding commitment of \$55,000 from the Housing Trust Silicon Valley, and has committed a match of property reserves in the amount of \$79,180. A detailed scope of work, project budget, and timeline is provided in the Project Description (Attachment 2).

Housing staff evaluated the proposal based on the qualifications of the proposer, the need for the proposed project, and other criteria set forth in the RFP. Stoney Pine has had clean financial audits, and other projects developed and managed by Charities also have a strong record of financial and regulatory compliance. In addition, this is a 100% special needs project, serving mostly extremely low income, disabled tenants who would have a very difficult time obtaining housing on the market anywhere in the region. The scoring committee awarded the proposal an average score of 75 points (out of 100), as shown in Attachment 3.

The proposed terms for this funding commitment are summarized in Attachment 4. The proposed loan term is consistent with the City's terms typically used for housing rehabilitation loans on smaller

projects: three percent (3%) simple annual interest, deferred for a term of 30 years, with option to extend in exchange for an extension of the affordability term. The term of affordability runs with the land for the term, and does not terminate early if the loan is paid off early. Given the very strict rental restrictions imposed on this project by the senior lender (U.S. Department of Housing and Urban Development) as a special needs project, the property does not generate surplus cash flow. Therefore the loan is proposed to be fully deferred, rather than requiring residual receipts payments as most larger housing loans do. This is similar to the structure of a number of other Housing loans of similar amounts made in prior years to special needs properties with no surplus cash flow.

Before the rehabilitation work starts, Charities will hold outreach meetings with the tenants to discuss the rehabilitation work and address any questions or concerns. Service providers will assist tenants with packing and any support tenants might need during the construction period. Funding for this tenant assistance is included in the project's budget.

The proposed project aligns with the goals and objectives of the RFP and City policy. The rehabilitation work will create a safer and better living environment for residents and maintain this affordable housing development for the rest of its affordability term.

FISCAL IMPACT

The recommended action will not impact the General Fund. The action would conditionally award \$403,000 in Below Market Rate In-Lieu Fee (BIF) revenue to the project with the terms set forth in Attachment 4. Revenue from this source that has been collected in prior years is accounted for in the Below Market Rate (BMR) Reserve Fund Balance. The Below Market Rate Housing Sub-fund exists for the purpose of funding affordable housing projects, therefore the recommended action is consistent with its purpose and various city policies regarding affordable housing. The requested funding is available in the Below Market Rate Housing Sub-fund of the Housing Fund. Budget Modification No. 9 has been prepared to appropriate \$403,000 from the BMR Reserve to a new project to rehabilitate the Stoney Pine Villa Apartments.

BUDGET MODIFICATION NO. 9

FISCAL YEAR 2016/2017

	Current	Increase (Decrease)	Revised
Housing Fund / Below Market Rate Housing Sub-Fund			
<u>Expenditures:</u>			
NEW PROJECT: Rehabilitation of the Stoney Pine Villa Apartments	\$0	\$403,000	\$403,000
<u>Reserves:</u>			
BMR Reserves	\$4,134,821	(\$403,000)	\$3,731,821

PUBLIC CONTACT

Public contact was made through posting of the Council agenda on the City's official-notice bulletin

board, on the City's website, and the availability of the agenda and report in the Office of the City Clerk.

RECOMMENDATION

Award a one-year conditional commitment of BIF in the amount of \$403,000 to Charities for rehabilitation of Stoney Pine consistent with the terms set forth in Attachment 4 and approve Budget Modification No. 9.

This funding award will enable Charities to complete the needed rehabilitation work. The project is consistent with the City's Housing Element goals to maintain the quality of the City's existing affordable rental housing stock and assist special needs housing projects.

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Reviewed by: Trudi Ryan, Director, Community Development

Reviewed by: Walter C. Rossmann, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Vicinity Map
2. Project Description
3. Scoring Sheet
4. Term Sheet
5. Minutes of July 27, 2016 Housing and Human Services Commission Meeting