



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### REPORT TO HOUSING AND HUMAN SERVICES COMMISSION

#### **SUBJECT**

Consider Conditional Funding Awards for \$26 Million in Housing Mitigation Funds, Below Market Rate In-Lieu Funds, and Low Mod Income Housing Asset Funds for Development and/or Rehabilitation of Three Affordable Housing Developments.

#### **BACKGROUND**

On November 15, 2019, a Notice of Funding Availability ("NOFA") was issued for the construction or rehabilitation of affordable housing developments to be funded with the City's Housing Mitigation Funds ("HMF"), Below Market Rate In-Lieu Funds ("BMR"), and Low Mod Income Housing Asset Funds ("LMI"). A total of \$21 million in HMF, BMR, and LMI funds was made available through the NOFA. The previous NOFA for Housing Mitigation Funds was released in 2015.

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 into the Housing Mitigation Fund from the development of residential units. Low Mod Income Housing Asset Funds are payments to the Housing Successor Agency, a result of the dissolution of the former Redevelopment Agency; the City Council serves as the Housing Successor Agency. These funds are collected through annual payments into the Redevelopment Housing Fund. Projects funded using City Housing Funds are deed restricted for fifty-five years to ensure quality affordable housing for decades to come.

The NOFA announcement was distributed broadly to housing developers and non-profit agencies throughout the entire Bay Area region. Three complete applications were received by the January 3, 2020 deadline and include funding requests that range from \$14 million to \$18 million, for a total of approximately \$48 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.

- (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**

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. The creation of a conditional funding mechanism does not constitute a project and does not obligate the City to ultimately approve the project. (CEQA Guidelines Section 15378(b)(4)).

## **DISCUSSION**

Once the applications were received, a NOFA Review Committee ("Committee") was established and made up of five Community Development Department (CDD) and Department of Public Works (DPW) staff members. The Committee ranked each application based on the structured point system outlined in the NOFA, seen in Attachment 2. Based on the points allocated by the Committee, the applications were ranked 1 through 3. Funding was then recommended based on the overall rankings and their amount requested.

## **Application Summaries:**

### **Proposed Project One - Sonora Court**

The Sonora Court proposal was submitted by MidPen Housing, and consists of a request for \$14,000,000. The requested funds would be utilized to cover acquisition and predevelopment costs of a 1.2-acre parcel at 1178 Sonora Court (within the Lawrence Station Area Plan District) to construct a 7-story (5-story residential over 2-story podium), 147-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 three-bedrooms. The project would use AB 1763 to achieve their density and height. AB 1763 enables unlimited density for 100% affordable projects located within half a mile of a major transit stop. The subject site is adjacent to the Lawrence Caltrain station.

The total project cost is estimated to be about \$121 million, making the requested \$14 million approximately 12% of the total project cost. MidPen has full site control of the property. Additionally, MidPen submitted a Preliminary Review application in December 2019, and is prepared to continue the entitlement process if conditional funding is awarded. MidPen indicates they would both own and manage the property, however, they are open to considering City ownership of the land.

### **Proposed Project Two - Block 15**

The Block 15 proposal was submitted by The Related Companies of California (Related), and consists of a request for \$15,860,376 to fill the remaining funding gap of the "Block 15" project (nickname refers to the Downtown Specific Plan zoning designation of the site). Their project is a 90-unit affordable housing development on City owned land. The target population, specific to

occupancy, is extremely low-income to low-income households, and the proposed unit types range from studios to 3-bedrooms. Additionally, 23-units (25% of total units) will be set-aside for households with developmental and intellectual disabilities.

Related is currently in a Disposition and Development Agreement with the City for the development of the City owned site, and at closing the land control will be transferred through a long-term ground lease. The total capital cost of the project is about \$71 million, making the funding request of \$15,860,376 approximately 22% of the total project cost. It is important to note that the City has already awarded \$12.5 million in HMF and LMI Funds to this project, which will be released prior to start of construction. Together the two City funding requests would be about 40% of the total project cost (excluding the land value).

#### **Proposed Project Three - Orchard Gardens**

The Orchard Gardens proposal was submitted by First Community Housing (FCH), and consists of a request for \$18,000,000. The requested funds would go towards 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 and rehabilitate the Parkview Apartments. Additionally, the proposal calls for new construction of an 85-unit building (6-stories) facing Weddell Drive. The proposed project will demolish 32 units, rehabilitate 30-existing units, and build 85 new units for a total buildout of 115 units (53 net new units). The project would use AB 1763 to achieve their density and height.

The target population, specific to occupancy, will be mostly extremely low-income to low-income households, but 5-units are classified as unrestricted. Any units that are not deed restricted for affordable housing are not eligible for City funding. The unit type will range from 1-bedroom to 3-bedroom apartments and the proposed project will serve 35-families (households) and individuals with intellectual and developmental disabilities. The City awarded federal HOME funds into this development in 1997.

FCH currently has full site control of the property. The total capital project cost is about \$74 million - making the funding request of \$18 million approximately 24% of the total project cost. In 2016, FCH received an award of \$6,000,000 for a similar (slightly smaller) project, but the funding was never disbursed due to the project not moving forward at that time.

#### **Rankings and Application Recommendations:**

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

1. Sonora Court.
  - a. This project was ranked the highest due to a variety of reasons as outlined on the NOFA Scoring Sheet including, but not limited to: most complete application answers, clear budget and understanding of future escalating costs, lowest dollar request per unit, highest volume of units, proximity to public transit and agency expertise in developing and managing similar projects.
2. Orchard Gardens
  - a. This project was ranked second 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, and the inclusion of

supportive units for certain special needs populations.

3. Block 15

- a. This project was ranked third 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 and the inclusion of supportive units for certain special needs populations. However, the application had incomplete or limited answers to a variety of questions.

Due to the high quality and need of all three applications, and the opportunity to add these exceptional new developments to the City's affordable housing inventory, Staff is recommending the City Council award an additional \$5 million in Housing Mitigation, Below Market Rate In-Lieu and Low Moderate Income Funds, for a total of \$26 million to be awarded through this NOFA. The NOFA was written to allow an increase in funds awarded should it be needed.

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
MidPen Housing	Sonora Court	\$14,000,000	90.0	\$14,000,000
First Community Housing	Orchard Gardens	\$18,000,000	76.0	\$7,500,000
The Related Companies of California	Block 15	\$15,860,376	73.0	\$4,500,000
<b>Total</b>		<b>\$47,860,376</b>		<b>\$26,000,000</b>

The funding recommendation for the Block 15 project reflects the lower score for this NOFA and the fact that a considerable funding commitment has already been made. Staff found that additional funding was appropriate acknowledging the additional cost of constructing this project in the Downtown Specific Plan area, which essentially requires underground parking.

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 makes a recommendation to Council on January 22, 2020, the City Council will consider the item on February 25, 2020. On February 26, 2020, Housing Staff will send official Conditional Commitment Letters to the successful applicants. This timeframe will allow applicants to, if needed, meet the March 2020 Low Income Housing Tax Credit application timeline. Final funding agreements will be completed and signed prior to building permit issuance.

### FISCAL IMPACT

This NOFA has no impact to the General fund. Approving these funding recommendations would conditionally commit \$26 million in Housing Mitigation Funds, Below Market Rate In-Lieu Funds, and

Low Mod Income Housing Successor Funds to these projects; no general fund dollars are included in this NOFA. The purpose of these funds is for development or rehabilitation of affordable housing projects, so 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 to City Council:

1. Award conditional funding commitments to the projects listed in Attachment 3 to the report.
2. Award conditional funding commitments 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 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**

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