



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Consider request from Related California to allow an amendment to the Block 15 Disposition and Development Agreement to allow shared access to the work product with Google, allow the Department of Developmental Services to record a Deed of Trust and Regulatory Agreements on the City owned Block 15 properties to secure a \$1 million loan and Consider the award of an additional \$1 million in Housing Mitigation Funds to Related California as an alternative to offset lost funding

BACKGROUND

The City owns approximately 1.44 acres of land located at 365-388 Charles Street (APN No. 165-130-74), 396 Charles Street (APN No. 165-130-46), 397 South Mathilda Avenue (APN No. 165-130-68), 402 Charles Street (APN No. 165-130-45), 406-407 Charles Street (APN No. 165-130-73), and 403 South Mathilda Avenue (APN No. 165-130-69) in the City of Sunnyvale. In December 2015 Council provided policy direction and declared its intent to use this property for an affordable housing development.

After a formal Request for Qualifications (RFQ) and Request for Proposals (RFP) process, the City entered into an Exclusive Negotiating Agreement (ENA) with The Related Companies of California, LLC (Related) to negotiate the terms of a possible Disposition and Development Agreement (DDA), a long-term ground lease, and an affordable housing agreement for the development of a 90 unit affordable housing community on City owned property (RTC No. 17-0082, February 28, 2017). The ENA was fully executed on March 14, 2017.

On November 13, 2018 (RTC No. 18-0550), the City Council approved the final DDA and awarded a \$12.5 million loan from the Housing Mitigation Fund (HMF) and Low and Moderate Income Housing Asset Fund (former redevelopment financing). The DDA was fully executed on January 3, 2019. Related has partnered with Housing Choices to provide 25% of the total 90 units for adults with intellectual and developmental disabilities (I/DD). The development has received all planning entitlements as of April 2020.

The City also awarded two other loans to Related, for this project, in 2020; the first being an additional \$4.5 million in Housing Mitigation Funds and the second being an allocation of Sunnyvale's federal Home Investment Partnerships Funding (HOME) in the amount of \$483,000. This brings the City's total commitment of investment in the development to \$17,483,000.

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.

Goal HE 5: Promote equal housing opportunities for all residents, including Sunnyvale's special needs populations, so that residents can reside in the housing of their choice.

Downtown Specific Plan

Goal A-1: A Mixed-Use Center - Establish the Downtown as a cultural, retail, economic, and entertainment center of the community, complemented by employment, housing, and transit opportunities.

Policy A-1.2 Encourage a diverse housing stock with below-market-rate housing in all residential neighborhoods.

Policy A-1.9 Provide a variety of housing opportunities, including variation in affordability, size, and type of housing units.

ENVIRONMENTAL REVIEW

This action is exempt from the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15061(b)(3) because it can be seen with a certainty that there is no possibility that allowing financing modifications may have a significant effect on the environment. The actual development project was reviewed pursuant to CEQA and NEPA to assess its potential environmental impacts during the planning entitlement phase.

DISCUSSION

Since the DDA was executed in January 2019, Related has received all required Planning entitlements, hired a General Contractor, and has applied for various funding opportunities. Related has successfully secured \$25.5 million in funding from the following sources:

- City of Sunnyvale Housing Mitigation Fund (HMF)
- City of Sunnyvale Federal HOME funds
- County of Santa Clara
- CA Dept. of Developmental Services/ San Andreas Regional Center (pending Council action)
- Google (pending Council action)

While delays have been encountered along the way on the Block 15 planning process, the Related team and City staff continue to be committed to the project and anticipate final financing to occur in Spring 2021, allowing construction to commence in late 2021 or early 2022. Due to some of these delays and requirements of funding opportunities, the City received two requests from Related as outlined below.

Amendment to the Disposition and Development Agreement

Related has been tentatively approved for predevelopment funding in the amount of \$3 million from Google through their Launch Initiative program with the Housing Trust of Silicon Valley. As Related does not own the land, Google has requested shared access to the project design work product as security for the Block 15 loan. This is a common security method in affordable housing financing.

Section 20.3 of the DDA authorizes the City to possess the work product under an Event of Default. However, the DDA does not state whether another party can also access the work product for security. Therefore, Related is requesting Google be allowed joint access to the work product and for

the DDA to be amended to reflect the City's willingness to share the work product should the project default or Related not perform under the DDA (Attachment 2). If approved, Google's predevelopment funding would be made available to Related, prior to construction, to cover expenses necessary to complete design.

Funding Recording Request

Related has secured a \$1 million loan from the California Department of Developmental Services (DDS) through a partnership with the San Andreas Regional Center (SARC). This loan was awarded to Related due to the unit set aside for intellectual/developmental disabilities (I/DD). This funding component is especially critical as the \$1 million is used to fill the financing gap of the project as it is a permanent financing source and serves as a key partnership between Related, Housing Choices, and SARC.

Pursuant to DDS' funding requirements, the loan must be recorded on the land to secure funds in an Event of Default. Because Related does not own the land nor has a Ground Lease in place, Related is requesting that the City Council allow a Deed of Trust and Regulatory Agreement be recorded on the land to secure the DDS loan. The ground lease is scheduled, per the DDA, to be recorded prior to commencement of construction. The deadline to release the funds is March 2021 meaning that DDS cannot wait until construction to release the loan.

Should the Council approve this request, the City would be held liable in the event the project fails to move forward or in any future Event of Default; should that be the case, the City would have to repay the funds through Housing Mitigation Funds to avoid any foreclosure of the land. Should the Council choose not to approve this request, the DDS loan will be rescinded as the loan will have no security in the Event of Default; no other security options are available for DDS. An alternative method to losing this financing source but still meet the funding needs of the Block 15 project could be the Council allocating an additional \$1 million in City Housing Mitigation Funds.

FISCAL IMPACT

There is no fiscal impact to the General Fund associated with the modification to the DDA to allow joint work product security. However, should the Council approve the DDS recordation on the City owned properties, the City would become liable to repay the loan in the event of default, which would impact the City's Housing Mitigation Fund. If the Council chooses not to allow the DDS loan to record and decides to allocate \$1 million in additional HMF to the development, then there would be no impact to 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, Sunnyvale Public Library and Department of Public Safety. In addition, the agenda and report are available at the Office of the City Clerk and on the City's website.

ALTERNATIVES

Amendment to DDA

1. Approve the First Amendment to the Block 15 Disposition and Development Agreement to allow shared access to the work product with Google to serve as security for Google's predevelopment funding through their Launch Initiative program with the Housing Trust of Silicon Valley.

2. Do not approve the First Amendment to the Block 15 Disposition and Development Agreement.

Funding Recording Request

3. Allow the California Department of Developmental Services (DDS) to record a Deed of Trust and Regulatory Agreements to be recorded on the City owned Block 15 properties to secure DDS's \$1 million loan associated with the Block 15 affordable housing development.
4. Do not allow the California Department of Developmental Services to record a Deed of Trust and Regulatory Agreements to be recorded on the City owned Block 15 properties to secure DDS's \$1 million loan associated with the Block 15 affordable housing development.
5. Do not allow the California Department of Developmental Services to record a Deed of Trust and Regulatory Agreements be recorded on the City owned Block 15 properties and instead award Related an additional \$1 million in Housing Mitigation Funds to offset lost funding.

STAFF RECOMMENDATION

Alternatives 1 and 3: 1) Approve the First Amendment to the Block 15 Disposition and Development Agreement to allow shared access to the work product with Google to serve as security for Google's predevelopment funding through their Launch Initiative program with the Housing Trust of Silicon Valley, and 3) Allow the California Department of Developmental Services (DDS) to record a Deed of Trust and Regulatory Agreements to be recorded on the City owned Block 15 properties to secure DDS's \$1 million loan associated with the Block 15 affordable housing development.

Due to the importance of this affordable housing development in Downtown Sunnyvale, staff recommends Alternatives 1 and 3. The amendment to the DDA would allow a common financing tool in affordable housing financing and presents no risk to the City. Allowing DDS to record their Deed of Trust to the land no later than March 2021 allows a partnership between Related/Housing Choices and SARC to continue, and provides critical, highly desirable, financing for the development. The potential risk of this funding amount can be absorbed by the City's Housing Mitigation Fund in the Event of Default.

Prepared 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. Request Letter from Related CA
2. First Amendment to the Block 15 DDA