



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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File #: 21-0528, Version: 1

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### REPORT TO COUNCIL

#### **SUBJECT**

Approve Transfer from the Housing Mitigation Fund to the General Fund Related to Five Parcels Purchased with General Funds for the Downtown Specific Plan Area Block 15 Development for \$11,245,263 and Approve Budget Modification No. 9 in the Amount of \$11,245,263

#### **BACKGROUND**

In July 2015, the City Council authorized the purchase of four additional parcels in “Block 15” of the Downtown Specific Plan area for \$4.4 million. Two other properties were acquired with funds from the General Fund, one in 1997 and one in 2005. The purchases increased 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 (e.g., seniors, disabled adults).

Among the six-city-owned parcels, five were purchased with funds from the City’s General Fund. The property located at 388 Charles Street was purchased with funds from the Housing Mitigation Fund (HMF) in 2005. For the Housing Division to enable the start of the development, the General Fund will transfer the five parcels to the HMF, so that all parcels are kept in the same fund and the General Fund is compensated appropriately.

#### **Location :**

365 S. Mathilda Avenue and 402 Charles Street (APN: 135-13-045),  
396 Charles Street (APN: 165-13-046),  
397 S. Mathilda Avenue (APN: 165-13-068),  
403 S. Mathilda Avenue (APN: 165-13-069),  
406 Charles Street and 407 S. Mathilda Avenue (APN: 165-13-073), and  
388 Charles Street, 365 and 377-9 S. Mathilda Avenue (APN: 165-13-074)

In April 2016 a competitive Request for Proposals (RFP) was issued by the City and Related California was selected as the affordable housing developer, and a Disposition and Development Agreement was executed in January 2019. In April 2020, the Planning Commission approved a Special Development Permit to redevelop six City-owned parcels into a 90-unit affordable housing project (89 affordable units plus one manager unit). The project consists of four-story apartments along S. Mathilda Avenue and W. Iowa Avenue, two-story townhome-style units along Charles Street, underground parking, and private amenity spaces on the ground floor.

Related California has recently secured all final funding and construction will begin in October 2021.

## **EXISTING POLICY**

Pursuant to Sunnyvale Charter Section 1305, at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by affirmative votes of at least four members so as to authorize the transfer of unused balances appropriated for one purpose to another, or to appropriate available revenue not included in the budget.

## **GENERAL PLAN**

### **Community Vision**

**VI. AFFORDABLE HOUSING OPTIONS** - To provide a variety of housing options by style, size, density and tenure, so all segments of the population may find appropriate high-quality housing in Sunnyvale that is affordable to them.

**XIV. CARING COMMUNITY** - To provide support for those in the community who are not able to fully support themselves, so all residents may enjoy the City's high quality of life.

### **Housing Element**

**GOAL HE-1 ADEQUATE HOUSING** - 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.

## **COUNCIL POLICY**

**Policy 1.2.7** Acquisition, Leasing, and Disposition of City-Owned Real Property to sell property for appraised value:

3.B. Determination on Value of Land - The City shall evaluate the benefit of the sale of surplus property based on relevant factors including: (a) the value of the property based on an appraisal or broker's opinion of value, as appropriate, which is not more than six (6) months old at the time the property is presented to the City Council to complete the sale of a property, except that an appraisal will not be needed on property that does not exceed \$50,000 in value; (b) prevailing economic conditions and recent applicable trends, and (c) any special benefits to the community accrued from the sale, or exchange.

### **Policy 2.3.2** Housing Incentive Fund

**Policy Purpose:** The purpose of the Housing Incentive Fund is to implement specific housing policies of the Housing and Community Revitalization Sub-element of the City's General Plan by providing a funding source to defray construction costs and make possible the rehabilitation and new development of housing affordable to low-income persons.

**Policy Statement:** It is the policy of the City of Sunnyvale to utilize monies received as Housing Mitigation Fees as a Housing Incentive Fund. The Housing Incentive Fund shall be available to all developers proposing to construct, preserve affordability or rehabilitate rental housing within the City of Sunnyvale which is primarily occupied by persons earning 80% or less of the county median income.

### **Policy 2.3.3 Strategies for Affordable Housing and the Use of Housing Mitigation Fees**

Policy Statement: It is the policy of the City to:

8. Encourage private/non-profit partnerships on City-owned sites available for housing development so that part of the site may be developed for low to moderate income housing.

### **ENVIRONMENTAL REVIEW**

The development project was reviewed pursuant to the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA) to assess its potential environmental impacts during the planning entitlement phase. The project was determined to be consistent with the City's General Plan and no additional environmental review was required pursuant to CEQA Guidelines Section 15183 and Public Resources Code Section 21083.3. Under Section 15183 of the CEQA Guidelines, projects that are consistent with the development density established by existing zoning or general plan policies for which an environmental impact report (EIR) was certified do not require additional environmental review, except as might be necessary to examine whether there are project-specific significant effects which are peculiar to the project or its site. A consistency checklist was prepared for the project that demonstrated that all the project's significant impacts were either studied in the EIR that was adopted for the City's Land Use and Transportation Element (LUTE) or can be substantially mitigated by uniformly applied development policies or standards. A Notice of Determination was filed on May 4, 2020. Furthermore, this action is exempt from the CEQA pursuant to CEQA Guidelines section 15378 (b) (4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

### **DISCUSSION**

During negotiations with Related CA, the City's Public Works Department engaged with Valbridge Property Advisors to perform an appraisal of the six parcels referenced above in October 2017 (Attachment 1) to determine the fair market value of the combined parcels for the transfer. The six parcels were appraised at market rate as if assembled for one development. In the 2017 valuation, the value was appraised at \$9.4 million or \$149.94 per square foot.

Since the housing market's assessed value increased significantly in the Sunnyvale area, staff engaged Valbridge Property Advisors in October 2020 to perform an updated appraisal (attachment 2) for these six parcels. The latest appraisal value is \$15.3 million or \$243.92 per square foot. Since HMF already owned one of the properties, the value of land owned by the General Fund is \$13.7 million based on the 2020 appraisal for the five remaining parcels, an increase of over \$4.6 million from the 2017 valuation. The second appraisal incorporated the recently approved Planning entitlements as part of the appraised value, whereas the first appraisal considered only the land. Subsequently, the City engaged with Valbridge Property Advisors in June 2021 and requested a supplemental review (Attachment 3) without the entitlements for the adjusted estimate. The new adjusted value per square foot is \$200.69 or \$12.6 million for the six parcels. Entitlements for the development were obtained by Related CA without any support from the City's General Fund, so it seems inappropriate for the General Fund to benefit financially from the increased value of the land as a result of development entitlements.

Since 2017, the Housing Division has budgeted \$9 million to be transferred from the HMF to the General Fund prior to the start of construction on Block 15. However, given that the most recent appraisal is significantly higher, Council could choose to simply transfer the budgeted amount,

reducing the fiscal impact to the Housing Mitigation Fund.

Appraised Value Adjustment

	<b>2021 Supplemental Appraisal</b>
Amount Per Square Foot	\$200.69
Total Six Parcels Value	\$12,549,748
Exclude 388 Charles St. owned by HMF	(\$1,304,485)
General Fund Portion	\$11,245,263

### **FISCAL IMPACT**

Sunnyvale Housing Mitigation Funds are impact fees collected from new commercial and residential development to mitigate the demand for new affordable housing. The revenue is used to fund new affordable housing developments and related housing division costs. The HMF revenue varies considerably as development patterns change. For example, a strong development year can yield nearly \$10 million in new HMF while a slow development year could be much less (such as the last fiscal year, which yielded approximately \$2 million in HMF).

Once the HMF has established a large enough reserve, and in accordance with the Mitigation Fee Act, the City issues a competitive Notice of Funding Availability (NOFA) for non-profit developers to apply for funding to rehabilitate or develop new deed restricted affordable housing. The most recent NOFA was issued in 2019 and Council awarded \$26.5 million in February 2020 to three new affordable housing developments: Block 15 (subject site), Orchard Gardens, and Sonora Court Family Housing.

The transfer of the funds from the Housing Mitigation Fund to the General Fund is part of the funding strategy for the Civic Center Modernization project. Staff is recommending approval of Budget Modification No. 9 to fund the additional amount of \$2,245,263, which is outlined above. Additionally, this transaction was originally anticipated to be completed in FY 2020/21. As a result, it was not budgeted in the current fiscal year. The budget modification includes the full amount, recognizing both the revenue, and the transfer out of the funds to the Infrastructure Fund to fund the Civic Center Modernization Project. The project budget itself already reflects the needed funding.

### **Budget Modification No. 9 FY 2021/22**

	Current	Increase/ (Decrease)	Revised
<b><u>General Fund</u></b>			
<b><u>Revenue</u></b>			
Sale of Property	\$0	\$11,245,263	\$ 11,245,263
<b><u>Transfers</u></b>			
To Infrastructure Fund	\$ 570,766	\$ 11,245,263	\$ 11,825,029

## **Housing Mitigation**

### **Fund**

#### **Expenditures**

Transfer Out	\$ 78,831	\$ 11,245,263	\$11,324,094
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#### **Reserves**

Housing Mitigation Reserve	\$ 49,620,594	\$ (11,245,263)	\$ 38,375,331
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## **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**

1. Approve the transfer of funds from the Housing Mitigation Fund to the General Fund related to five parcels purchased with General Funds for the Downtown Specific Plan Area Block 15 Development based on the Supplemental Review of the 2020 appraisal report for \$11,245,263 and Approve Budget Modification No. 9 in the amount of \$11,245,263.
2. Approve the transfer of funds from the Housing Mitigation Fund to the General Fund related to five parcels purchased with General Funds for the Downtown Specific Plan Area Block 15 Development based on the planned amount of \$9,000,000 and Approve Budget Modification No. 9 in the amount of \$9,000,000.
3. Other action as directed by Council.

## **STAFF RECOMMENDATION**

Alternative 1: Approve the transfer of funds from the Housing Mitigation Fund to the General Fund related to five parcels purchased with General Funds for the Downtown Specific Plan Area Block 15 Development based on the Supplemental Review of the 2020 appraisal report for \$11,245,263 and approve the Budget Modification No. 9 for the amount of \$11,245,263.

The staff recommendation is based on the Council Policy 1.2.7 Acquisition, Leasing, and Disposition of City-Owned Real Property to sell property for current appraised value. In this case, the City is not technically acquiring or disposing of property, as this action is a transfer of funds from the Housing Mitigation Fund to reimburse the General Fund for its earlier purchase of the five parcels and there is not a change in the owner of record on the title (i.e., the City of Sunnyvale will still be the owner of the property). However, the principles of the policy seem to apply in this situation, which is to use current appraised value as a primary factor in establishing a value.

The transfer of \$9M has been planned since 2017 and is reflected in the 10 and 20-year budget plan. As a return on investment the property values have increased significantly since the land was acquired. The General Fund also incurred expenses to maintain the properties since their acquisition as well as received revenue from rent payments when the properties were occupied. Both the General Fund revenues and the Housing Mitigation Fund revenues have seen significant decreases during the pandemic; however, residential property values have continued to increase in value. The

City Council has discretion to decide an acceptable fund transfer value.

Prepared by: Tim Kirby, Director of Finance

Reviewed by: Trudi Ryan, Director of Community Development

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

**ATTACHMENTS**

1. 2017 Appraisal Report
2. 2020 Appraisal Report
3. Supplemental Letter of the 2020 Appraisal Report