



**DATE:** June 21, 2016

**CATEGORY:** Public Hearing

**DEPT.:** Community Development

**TITLE:** **1701-1707 West El Camino Real  
Affordable Apartment Development  
and Funding Appropriation**

### **RECOMMENDATION**

1. Adopt a Resolution Conditionally Approving a Planned Community Permit and Development Review Permit for a Five-Story, 67-Unit Affordable Apartment Development (Including One Manager's Unit) with One Level of Underground Parking and a 25 Percent Density Bonus Request with Waivers, a Provisional Use Permit for Rooftop Amenities Above the Third Floor and Residential Accessory Uses Utilizing the Ground-Floor Commercial Setback, and a Heritage Tree Removal Permit to Remove Three Heritage Trees (Including Two City Street Trees) at 1701-1707 West El Camino Real, to be read in title only, further reading waived (Attachment 1 to the Council report).
2. Appropriate \$2.0 million in Below-Market-Rate (BMR) In-Lieu funds, \$3,978,390 in Housing Impact funds, and \$1.0 million from Rental Housing Impact funds for Palo Alto Housing affordable apartment development, in addition to the \$1,021,610 of predevelopment funds that have already been appropriated for predevelopment expenses on October 20, 2015, the unexpended balance of which shall be rolled over into the construction loan. (Five votes required)
3. Authorize the City Manager or his designee to negotiate the loan terms, and execute a funding commitment letter, loan agreement, and related loan documents for the BMR, Housing Impact, and Rental Housing Impact funds.

### **BACKGROUND**

In February 2014, the City of Mountain View released a Notice of Funding Availability (NOFA) for affordable housing developments. On October 20, 2015, as part of the NOFA process, the City Council authorized an \$8.0 million reservation of funding for this project by Palo Alto Housing (PAH), including \$1,021,610 in predevelopment funds to be used for the development review process. Council also requested staff expedite

the development review process, if possible, to bring the project back for final action before July 2016.

On December 1, 2015, PAH submitted an application for a proposed 65-unit studio development (including 1 one-bedroom manager's unit), with 30 units reserved for military veterans earning 30 percent area median income (AMI) or less and 11 units for households that are at risk of being homeless. The remaining 24 units are available to anyone with incomes at or below 60 percent AMI. With the increase to 67 units, 26 units would be available to future residents with incomes at or below 60 percent AMI.

The project provides studio housing opportunities for income-qualifying veterans and workforce populations. Based on HUD's annual rent schedule, rents will range from approximately \$586 per month for the studio units at the 30 percent AMI level to \$1,152 per month for the one-bedroom units at the 60 percent AMI level. Households typically qualifying for these rental rates have a maximum annual income of \$23,460 for a one-person household at 30 percent AMI to \$53,580 for a two-person household at 60 percent AMI.

### **City Council Meeting on Parking Demand**

Subsequent to the reservation of funding, a parking study was completed, using predevelopment funds, to help establish the parking ratio for the project. The parking study included a comparative analysis of three existing affordable housing projects in the City of San Jose with similar unit mixes, distances to major transit services, and access to neighborhood commercial services/amenities. Both the parking study and other local examples of comparable developments supported a lower parking ratio for the project than required by the El Camino Real Precise Plan or State Density Bonus Law. Both the Precise Plan and the Zoning Ordinance allow consideration of a reduced parking standard.

On March 22, 2016, the City Council supported an initial parking ratio of 0.45 space per unit, which was used to refine the design for the PAH development (see Attachment 2). Based on this ratio, the applicant was able to work with staff to add two units (for a total of 67 units).

### **Neighborhood Meeting Input**

On September 24, 2015, a neighborhood meeting was held to solicit public input on the project ahead of the City Council's consideration of the funding reservation; 15 neighbors and interested parties attended the meeting. Most of the attendees supported the development, and overall feedback was positive. A few attendees expressed concern about traffic impacts on El Camino Real and questioned whether the unit sizes

would be adequate for veterans. Several veterans attended the meeting to express their support and also urged the City to waive the leasing preference for existing City residents/workers. To clarify the policy, staff explained veterans from other communities could apply for units if PAH does not receive enough applications from veterans already living or working in Mountain View.

### **Environmental Planning Commission Public Hearing**

On May 18, 2016, the Environmental Planning Commission (EPC) reviewed and recommended approval (6-0-1, one commissioner absent) of the project (see Attachment 3), including all development permits, the CEQA determination, and the staff position on public benefits as described in the EPC staff report (see Attachment 4).

The EPC applauded the attractive project design and amenities, mix of affordable units, location near transit and commercial services, provision of VTA Eco Passes, sustainable features, and bicycle parking facilities. They made particular mention of the units available to veterans, given the need for such units in the community. Some Commissioners encouraged the applicant to look into providing more garden area and an alternative means for bicyclists to exit the garage if the ramp proved to be too steep.

Staff received two comment letters supporting the project prior to the EPC hearing (see Attachment 5). Four members of the public spoke at the hearing, including three people who strongly supported the project and one person who felt this was a good project in a bad location for any new development given existing traffic problems at the El Monte/El Camino Real intersection.

### **Additional Project Changes**

After the EPC hearing, PAH determined it would be beneficial for the project's tax credit funding application to convert 4 of the 66 studio units into one-bedroom units. In order to compete well for tax credit program funding, PAH must be below the Threshold Basis Limit as computed by the California Tax Credit Allocation Committee (CTCAC). Since the Threshold Basis is slightly higher for a one-bedroom unit than a studio unit, it is beneficial for PAH to include some one-bedroom units in their proposal.

The Threshold Basis Limit is CTCAC's method of cost control for tax credit projects and includes construction costs, but not land cost. These CTCAC limits are based upon average development costs reported on CTCAC applications for the past 10 years. For 2016, the Threshold Basis Limit is \$173,768 per unit at the time a project is occupied, which is an approximately 5 percent decrease from 2015 despite construction costs in Santa Clara County increasing dramatically. CTCAC has alluded that a mistake in the

compilation of the data may have been made and the Threshold Basis Limit for Santa Clara County may increase in the near future. Until then, all applicants must be below the existing threshold at the time their project is occupied.

Given the uncertainty around the Threshold Basis Limit, PAH has been proactive to position the project for funding by including the 4 one-bedroom units in the project now. The one-bedroom units are created by enclosing the bedroom areas in the four largest studio units. This does not require modifications to any other units, nor does it change the overall building area, exterior appearance (beyond a minor fifth-floor window change) or parking demand, as compared to the project reviewed by the EPC. The changes are reflected in the project plans and resolution attached to this report.

### **Project Site and Nearby Amenities**

The 0.49-acre project site is currently vacant and consists of two existing parcels at the southwest corner of El Camino Real and Rich Avenue. Rich Avenue is a residential dead-end street, predominantly developed with apartment complexes. There is also a 9-unit, small-lot, single-family development (Rich Place) at the end of Rich Avenue, which terminates approximately 600' south of El Camino Real.

Transportation is easily accessible, with four Valley Transportation Agency (VTA) bus routes within a 0.5-mile radius. Bus Lines 22 and 52 are within one-quarter mile while Bus Lines 34 and 35 are within a one-half mile distance. There is rail access within a 2-mile radius; however, tenants would need to take VTA Bus Line 52 or walk 1.5 miles to the Mountain View Transit Center.



The project site is less than 0.5 mile to McKelvey, Eagle, and Castro Parks. The property is adjacent to retail businesses to the west (including the El Monte Shopping Center), a two-story apartment complex to the south, and a two-story Super 8 Motel to the east (across Rich Avenue). Prometheus Real Estate Group is constructing a four-story apartment complex across El Camino Real.

## Project Description

PAH is proposing a new five-story, 67-unit affordable development (including one manager's unit) over one level of underground parking in a Medium-Intensity Corridor location under the El Camino Real Precise Plan. As part of the project, PAH is also requesting a 25 percent density bonus with waivers from development standards for building height, rear setback, side setback (affecting a small segment of the irregular western property line), and common usable open area, as permitted under the State Density Bonus Law. The density bonus request is based on the project's provision of 100 percent affordable units, as discussed later in this report.



The project has two street frontages—El Camino Real and Rich Avenue. The main building entry is oriented toward the corner with a small entry plaza providing access from adjacent street frontages to the main lobby and management/service offices. Vehicle access to the underground garage is provided from Rich Avenue, and three ground-floor units have front patios along Rich Avenue.

The majority of the studio units (60 of 67) are approximately 430 square feet in size, but a few studios are as large as 650 square feet. The project open space and community gathering areas are distributed throughout the site and building, including rooftop decks accessible from the fourth and fifth floors, a communal courtyard to the south and west of the building, a large ground-floor community room, and small lounge areas on the first and fifth levels of the building. The project also includes a courtyard fitness area, gardening beds, a laundry room, and additional management/service offices.

### **General Plan and Zoning**

The project site is located in the Mixed-Use Corridor General Plan land use designation, which allows a broad range of uses, including high-density, multi-family residential development. The proposal advances several important General Plan policies such as:

- **LUD 3.5: Diversity.** The project will provide affordable housing to increase the diversity of new housing stock in the City, including provision of new housing opportunities for military veterans.
- **LUD 6.3: Street presence.** The proposed building creates a presence on the street, utilizing a distinctive corner design and engaging ground-floor building and site features to engage the street frontage.
- **LUD 20.4: Residential design transitions.** Although waivers to development standards are proposed, the project steps back upper floors to meet the intent of specific standards aimed at integrating new El Camino Real development with surrounding residential neighborhoods.
- **LUD 20.5: Landscaped pedestrian amenities.** In addition to providing on-site common open space, the project includes a small entry plaza at the corner to enhance landscaped pedestrian amenities along El Camino Real.
- **LUD 20.6: Parcel assembly.** While efforts to include a third, small parcel on El Camino Real to the west of the project site were not successful, the project still assembles two existing parcels to facilitate redevelopment of the corridor.

Although waivers from certain development standards are proposed as part of the density bonus, the project implements key streetscape design standards and attempts to meet the intent of the development standards for which waivers are requested. In addition, based on State Density Bonus case law, the project is considered consistent with the General Plan and Precise Plan standards even though the floor area ratios (FARs) exceed what is allowed for the site. The project also meets several key “guiding principles” of the Precise Plan, including, but not limited to:

- *Create a more livable and beautiful corridor.* The development will expand sidewalk areas and improve streetscape landscaping while providing new housing units in an attractively designed building.
- *Promote diversity and flexibility.* The project will provide a variety of new, affordable housing units, including housing for military veterans.
- *Encourage creative and flexible use of small parcels.* The proposal aggregates two small, irregularly shaped parcels.
- *The new affordable and senior housing will support the City’s diversity and livability.* The development locates new affordable housing near commercial services, public parks, and transit options.

## **Density Bonus**

The State Density Bonus Law has been in effect since 1979 and was enacted to aid the development of affordable housing in California by providing incentives/concessions or waivers/reductions of development standards for the construction of affordable or senior housing units in residential projects. The law has been amended over time to further enhance its application and reduce barriers to implementation. The intent of the law is to address the shortage of affordable housing by making its development more financially feasible for developers while also reducing regulatory barriers within local jurisdictions. The law applies to both rental and ownership housing developments with greater than five units and is separate from the City’s affordable housing programs.

The Density Bonus Law provides a sliding scale for additional/bonus density (up to a maximum increase of 35 percent), based upon the percentage of units set aside for seniors, low-, very low-, or moderate-income households within a proposed development project. The higher the percentage of affordable units proposed, the higher the allowed density increase for the project. The density bonus is calculated based on the maximum allowable density under the applicable zoning designation for the project site. Because the proposed development is a 100 percent affordable project, it is eligible for the maximum 35 percent density bonus.

Depending on the percentage of units and level of affordability proposed, the developer can request one or more concessions (or incentives), which result in identifiable cost reductions enabling the affordable housing provision. Density bonus projects may also request waiver or reduction in applicable development standards and design requirements (i.e., reduction in setbacks, extra height, etc.) that would otherwise prohibit the development of the project.

The Density Bonus Law parking standard was recently updated, specifically for transit-oriented affordable developments, and allows a parking ratio of one-half parking stall per bedroom. Because the project is a City-partnered affordable project, the parking standard was set according to the City's standard process for affordable developments and based on a parking study analyzing expected demand based on comparable projects, rather than using special parking standards incorporated into the Density Bonus Law. The project parking ratio does not exceed the Density Bonus Law standard.

## **ANALYSIS**

### **Project Density Bonus Proposal**

The project will provide affordable housing units on this site and includes a request for a 25 percent density bonus (see Attachment 6). Because the El Camino Real Precise Plan regulates development based on FAR, a building intensity versus residential density metric, the proposed 25 percent density bonus is calculated on top of allowed FAR versus dwelling units per acre (a typical residential density metric). The density bonus is requested in exchange for providing 100 percent of the units at low- or very low-income levels.

The project proposes 2.31 FAR versus the 1.85 FAR maximum allowed for Tier 1 projects in Medium-Intensity Corridor locations in the El Camino Real Precise Plan. PAH is also requesting waivers from development standards. Under the State Density Bonus Law, the following development standards cannot be applied by the City if they would have the effect of physically precluding the construction of the density bonus project.

#### **Waiver 1: Building Height**

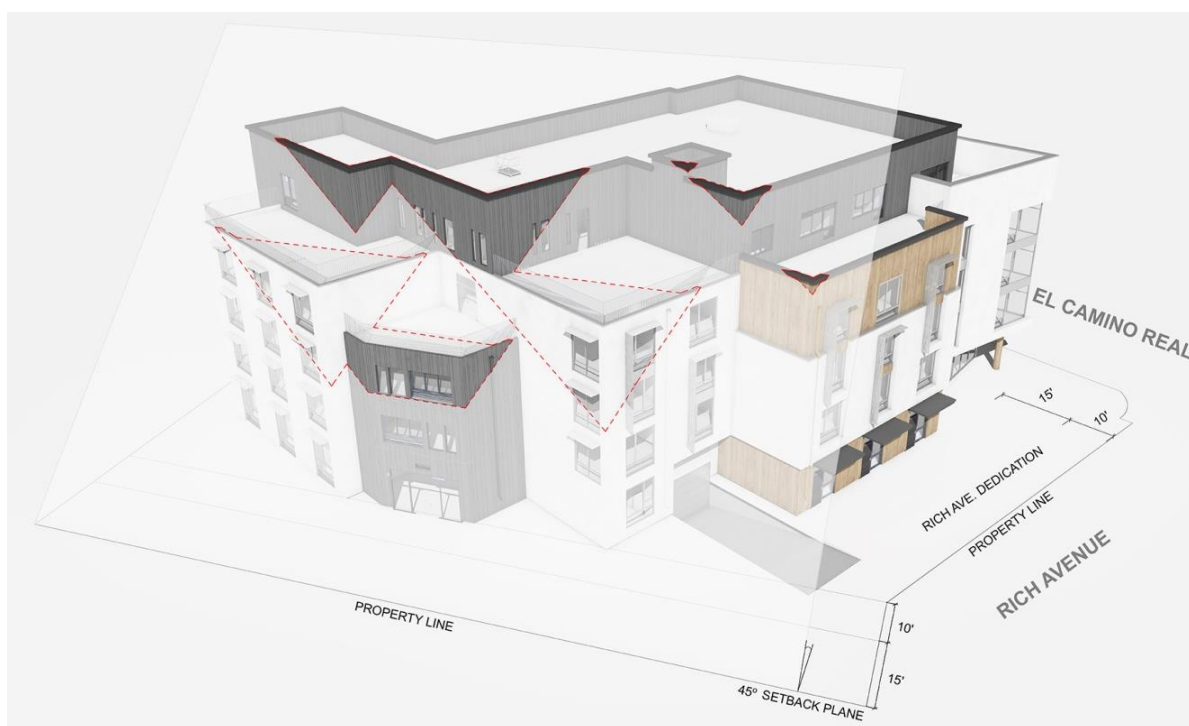
The El Camino Real Precise Plan limits the maximum height to four stories and 55'. Limited height projections are allowed (up to an additional 10') for architectural features and for access to rooftop amenities (rooftop amenities above the third floor require a Provisional Use Permit).



The proposed building generally conforms to the 55' maximum height. A waiver to allow the fifth floor is required, as well as for limited areas where heights exceed 55' for necessary drainage and parapets. The height waiver is appropriate because the majority of the building complies with height in feet maximums and taller building areas generally feature larger setbacks to minimize impacts. Without the fifth-floor height waiver, the density bonus project could not be constructed.

### Waiver 2: Rear Setback

A waiver is requested to allow portions of the building to encroach approximately 1' into the minimum required rear setback of 25' and limited encroachments of upper building floors into additional rear setback areas required due to the adjacent residential development, as shown below.



Staff and the Development Review Committee (DRC) carefully reviewed the project design and found the proposed building generally meets the intent of required setbacks next to residential uses. As shown above, building heights are varied and upper floors are generally stepped back as far as possible. The project design aims to meet requirements to the maximum extent feasible without significantly affecting the livability of proposed units or eliminating units, thereby physically precluding the construction of the density bonus project.

### Waiver 3: Side Setback

A waiver is requested to allow a 10' to 15' side setback to the western property line, where a 15' setback is required. The waiver applies to a limited building area where the irregular lot zigzags next to the back of adjacent commercial buildings. This exception would have no major impacts to the adjacent properties or project building.

### Waiver 4: Common Usable Open Area (Residential)

A waiver is requested to allow approximately 120 square feet of common usable open area per unit rather than the El Camino Real Precise Plan required 175 square feet of common open area per unit. Approximately 8,140 square feet of usable open area is provided instead of the required 11,725 square feet.

The irregular shape and small lot size mean there is limited area available for usable open space. Moreover, the density bonus units increase the required open area while reducing available space for open areas to be constructed to meet the Precise Plan standard. Proposed open areas are well distributed throughout the building and site. Three units also have private patios; the development has a range of interior lounges and supportive service rooms providing additional amenities; and there are other landscaped setback areas available for passive enjoyment, which do not meet minimum 20' dimensions. The density bonus project could not be constructed without this waiver, and the waiver cannot be reduced without adding roof decks in locations with more impacts on the adjacent apartment complex or on-site units.

### **Project Design**

The proposed building design employs a contemporary architectural style, a mix of three main colors/materials, window recesses, and architectural projections, and setbacks to taller wall areas to create a simple, but striking, building. The angled corner feature is slightly taller and projects outward from the rest of the building. Ground-level site features work with the corner projection to highlight the entry.

Along the rest of the street frontages, the design achieves a distinct bottom, middle, and top, with a storefront appearance along El Camino Real; ground-floor entries on Rich Avenue; deeply recessed windows and projecting solar shades; and warm materials and colors at the ground-level and fourth floors. The fifth floor is stepped back significantly from lower levels along the streets and rear elevation.



As required by the El Camino Real Precise Plan, the garage is accessed from Rich Avenue rather than El Camino Real and is set back significantly from the street to deemphasize its appearance. The garage provides 31 parking stalls, consistent with the ratio established by the City Council, secure bicycle parking for each unit, and secure storage lockers for approximately one-half of the units. Storage lockers for the rest of the units are distributed across the rest of the building floors.

The main courtyard area is located in the larger rear and southwesterly setbacks, and is proposed to include passive gathering space, raised planter beds for gardening, and a fitness area. Three mature trees will be preserved along the rear property line to enhance the courtyard area and provide a landscape buffer to the adjacent residential complex. Additional common usable open area is provided in the three roof decks – two on the rear/side of the building and one facing toward El Camino Real.



## **Provisional Use Permit**

The El Camino Real Precise Plan requires a Provisional Use Permit for rooftop amenities above the third floor and residential accessory uses utilizing ground-floor commercial setbacks on El Camino Real.

- Roof Decks: The Provisional Use Permit process allows for careful review of proposed rooftop amenities to ensure they are suitable for the development and avoid off-site impacts to neighboring properties. The DRC reviewed the proposal and worked with the applicant to orient views away from the adjacent residential complex through a combination of roof deck location, railing/landscape screening, and space planning so usable area is buffered from the rear-facing portion of the roof deck.
- El Camino Real Setback: The project is designed to comply with the El Camino Real ground-floor commercial setback requirements. The El Camino Real Precise Plan identifies locations where ground-floor commercial uses are specifically required, but other locations may be proposed and residential accessory uses may use the ground-floor commercial setbacks through a Provisional Use Permit process. The proposal includes provisionally allowed residential accessory uses on the ground-floor frontage, substantially incorporates El Camino Real Precise Plan design guidance intended to ensure the building design engages the street, and is located in a commercial area where this setback is contextually appropriate.

The DRC reviewed and supported the design of the features requiring a Provisional Use Permit.

### **Design Exceptions**

In addition to the requested development standard waivers as part of the density bonus, the project design includes three architectural projections, which are effectively building encroachments into required setbacks. These encroachments are specifically discussed in the El Camino Real Precise Plan: projections of up to 8' (street frontages) and 2' (nonstreet facades) are permitted through the Planned Community Permit process.

- The angled building corner projects into the front setback. The proposal is compliant, but deviates from the Precise Plan direction that the projection should not be used above the third story. The DRC specifically supported the proposal as it creates an attractive and distinctive feature at the corner.

- The proposed solar shades project approximately 2' into required setbacks and serve both a practical and decorative purpose. They are integrated with the deeply recessed windows to create a cohesive building feature supported by the DRC.
- The ground-floor units facing Rich Avenue have porch/stoop features, which are comprised of a projecting roof and wood accent "wall." These projections provide a screening function between the stoops and a warm materiality. The DRC supported these building features as well.



### **Heritage Trees and Landscaping**

The project will remove one on-site Coast redwood and two pin oak street trees on El Camino Real. The City arborist has reviewed the arborist reports and supports removal of these trees. The Coast redwood is in declining health; it is located along the shared western property lines and sandwiched against one of the adjacent commercial buildings.

The pin oak trees along El Camino Real are reasonably healthy. However, both trees have caused significant pavement damage and uplifting of the sidewalk. One of the two trees is also growing into the street. Both trees would be impacted by repaving to establish the new El Camino Real streetscape and pruning to avoid conflicts with the new building. Staff worked with the applicant to evaluate if it was possible to save the trees. However, given the extent of damage caused by the tree and construction conflicts, both trees are recommended for removal. Three replacement scarlet oak trees will be planted along El Camino Real in new tree wells constructed with structural soil and other measures to avoid uplifting new sidewalks and other conflicts between City street trees and paved areas.

The existing tree canopy covers roughly 30 percent of the site area, including existing street frontage area. However, the bulk of the site is clear of trees, with most of the tree canopy comprised of street trees and on-site trees in buffer locations along shared property lines. The most significant trees include the two pin oak street trees to be removed along El Camino Real and two redwood trees to be preserved in the southeast corner of the property along Rich Avenue. The canopy will be reduced to 12.5 percent at project completion, based on the mix of trees removed/retained and young trees planted as part of the project.

Opportunities for replacement landscaping are limited to podium planters above the project garage and in-ground plantings around the project edges. However, within 15

years, the site canopy is expected to exceed the existing tree canopy (at 44 percent of the site and frontage area). Heritage tree replacements and other landscaping will enhance street frontages through a mix of on- and off-site plantings, and provide strong buffer landscaping along the west and south property lines. Staff expects the landscaping to help address privacy between the project site and adjacent properties, create attractive streetscape conditions tailored to the different project street frontages, shade common amenity areas, and provide scale to new building walls.

### **Public Benefits**

The El Camino Real Precise Plan allows two tiers of development FAR in Medium-Intensity Corridor locations—Base and Tier 1. Base tier projects (up to 1.35 FAR) are not required to prepare a public benefits program. Tier 1 projects (between 1.35 FAR and 1.85 FAR) are required to provide a public benefits program. Public benefits are public improvements or equivalent resources, above and beyond what is required under existing regulations, to improve the quality of life for the community and to help implement the Precise Plan. The El Camino Real Precise Plan provides a list of examples of public benefits and establishes affordable housing as a “Plan priority” for public benefits.

A resolution was adopted to establish initial public benefits value requirements for future projects. The resolution did not identify if 100 percent affordable housing developments should be exempt from public benefit requirements. Staff supports 100 percent affordable residential developments being exempt from public benefit program requirements, for similar reasons to the recent exemption of 100 percent affordable projects from Park Land Dedication fees and because these developments provide a public benefit intended by the program.

### **Project Financing**

Financing for affordable housing developments is very complex and influenced by factors not found in market-rate developments. Successfully securing full funding for affordable developments requires a strategic approach in a highly competitive environment of dwindling and changing funding sources.

The following sections provide additional information on anticipated project funding sources. Table 1, below, identifies the amount each funding source would contribute to the PAH project cost based on PAH's pro forma (see Attachment 7).

**Table 1 – Project Funding Sources**

<b>PERMANENT SOURCES</b>	<b>AMOUNT</b>
Tax Credit Investor Capital	\$16,977,529
City of Mountain View – NOFA	\$7,000,000
VHHP Loan	\$4,430,660
<b>TOTAL</b>	<b>\$28,408,189</b>

### **Federal Tax Credit Program**

Currently, the Federally funded 4 percent and 9 percent tax credit programs are two of the primary outside funding sources for affordable housing projects. Both tax credit programs are administered at the State level by the CTCAC. The 4 percent tax credit program is not competitive, but usually requires additional local funding since the equity created by selling the tax credits to investors is far less than the equity generated in the 9 percent tax credit program. The end result is a larger funding gap for a 4 percent tax credit project that must either be filled by City funds or other outside funding sources, which are scarce. Typically, there are two application opportunities a year for the 9 percent tax credit program – one in March and a second in late June/early July. Applications for the 4 percent tax credits are accepted more often – about six times a year.

Prior to requesting a reservation of funding from the City Council in October 2015, staff compared funding the proposed development with the highly competitive 9 percent tax credit versus the noncompetitive 4 percent tax credit program. Since the 4 percent funding scenario would double the amount of necessary City subsidy required, the 9 percent tax credit funding was considered the most viable financing scenario for the proposed development as presented to the City Council at the funding reservation meeting in October 2015. The City Council opted to reserve up to \$8.0 million in funding to assure that the project will compete well in the 9 percent tax credit tie-breaker scoring.

In Table 2, below, comparative data is provided for the last four affordable developments and PAH's proposed project, which shows the proposed project is in line with past affordable developments in terms of City subsidy. With a City loan of \$7.0 million, the City subsidy per unit would be the lowest of all recent projects.

**Table 2 – Comparison of Affordable Housing Development Costs**

Project	No. of Units/ No. of Bedrooms	Project Cost	Project Cost Per Unit	City Subsidy Cost	City Subsidy Per Unit
Franklin Street Family Apartments	4 one-bedroom units 32 two-bedroom units <u>15 three-bedroom units</u> <b>51 units total</b>	\$23,849,641	\$467,640	\$12,547,000	\$246,020
Studio 819	48 workforce studios <u>1 one-bedroom manager unit</u> <b>49 units total</b>	\$17,396,762	\$355,036	\$9,000,000	\$183,673
1585 Studios	26 studios <u>1 one-bedroom manager unit</u> <b>27 units total</b>	\$10,468,465	\$387,721	\$4,652,000	\$172,296
779 East Evelyn Avenue	11 studios 45 one-bedroom units 44 two-bedroom units 15 three-bedroom units <u>1 manager unit</u> <b>116 units total</b>	\$62,405,964	\$537,982	\$21,700,000	\$187,069
PAH Project 1701 West El Camino Real	62 studios 4 one-bedroom units <u>1 one-bedroom manager unit</u> <b>67 units total</b>	\$28,408,189	\$424,002	\$7,000,000	\$104,477

City Loan

On October 20, 2015, the City Council reserved up to \$8.0 million in affordable housing funds for this project, including \$1,021,610 in Housing Impact funds for predevelopment expenses. In addition to the approximately \$1.02 million in Housing Impact funds for predevelopment costs, staff has recommended Council appropriate \$2.0 million in BMR funds, \$3,978,390 in Housing Impact funds, and \$1.0 million in Rental Housing Impact funds for this project. Although up to \$8.0 million in affordable housing funds would be appropriated, staff currently anticipates the project will utilize a total of \$7.0 million of City subsidy. As with other recent NOFA projects, it is



recommended that unexpended predevelopment funds be rolled over into the construction funding at the execution of loan documents.

The City funding would be provided in the form of a deferred payment loan with 3 percent simple interest and a 55-year term. Structuring the financing as a loan allows the project to qualify for more tax credit proceeds and enables the City to eventually recoup the funding, which can then be used for other affordable housing developments. Loan repayments are usually made from “residual receipts,” which is defined as the excess cash available after all reasonable and typical project operating expenses are paid. The rate of loan repayments will depend on the availability of excess project revenue. The full loan amount is repaid at maturity of the loan in 55 years. This is a typical loan structure for most affordable housing developments.

The City loan, secured by a deed of trust and promissory note, is subordinate to any bank financing on the property. In addition to the deed of trust and promissory note, a loan agreement is prepared for each City source of funding. Finally, a regulatory agreement is also prepared which includes the City’s requirements for the operation and management and sets the terms of affordability of the property.

#### Additional Project Funding Sources

In addition to the City contribution and the tax credit funding discussed earlier, PAH has applied for and received conditional funding awards from three additional sources: the State of California Veteran’s Housing and Homeless Prevention Program (VHHP); the Department of Housing and Urban Development (HUD)–Veterans Affairs Supportive Housing Program (VASH) Program; and the HUD Section 8 Project Based Voucher (PBV) Program.

The VHHP Program was created when California voters approved Proposition 41 in June 2014. Proposition 41 proposed using \$600 million of existing funding that was allocated for assisting veterans to purchase homes and reallocating it for construction/rehabilitation of affordable veterans housing. The State recently awarded \$116,102,795 of the Proposition 41 funds to 28 developments for veterans, including \$4,430,660 to this project. PAH was one of only two developments in Santa Clara County to receive a funding award through the program.

The HUD-VASH Program has conditionally committed 30 project-based vouchers, which are HUD Section 8 vouchers that are specifically set aside for veterans. The HUD-VASH Program is a rental subsidy program whereby the tenant pays 30 percent of their income toward the rent and HUD pays the remainder directly to the property owner. In addition to the HUD-VASH vouchers, the developer has also conditionally

secured 11 project-based Section 8 vouchers from the Housing Authority of the County of Santa Clara that are specifically set aside for households in danger of being homeless.

Although the project-based vouchers have no monetary value in the project's funding sources table, they increase the competitiveness of the development under the tax credit funding program and enhance the long-term financial stability of the project. The VHHP funding and the vouchers are also essential for PAH to successfully compete for 9 percent tax credits.

### **Property Management**

PAH will be required to prepare a Management Plan describing how the property will be managed and the plan will be subject to City approval before beginning a tenant selection process. The Management Plan will include the tenant selection and leasing process, oversight of resident services, resident rules, policies for record keeping, and other administrative guidelines.

### Tenant Selection

Where allowed by funding sources, a preference for tenancy will be given to households already living or working in Mountain View. As with all affordable developments, City staff will monitor the tenant selection process and verify that the property is being managed and maintained properly. As with other affordable housing developments, prospective tenants will be thoroughly screened. This includes a credit history check, criminal background review, rental history review, and reference checks.

### Resident Services

PAH will manage this property after construction. PAH has nearly 40 years' experience in property management and owns and manages over 20 affordable multi-family rental properties throughout Santa Clara County. This development will have an on-site resident manager who will reside in the manager unit, and, because it serves veterans, additional case managers will be on-site.

Supportive services will be provided on-site daily by Abode Services and supplemented by the VA Palo Alto Health Care System (VAPAHCS). Resident services will be provided to help promote self-sufficiency and will be tailored to the needs and interests of the tenants. Anticipated services include case management, life skills training, financial planning, job counseling and placement, mental health services, and shuttle service to the VAPAHCS divisions in Palo Alto and Menlo Park. All residents will have access to the services; veterans in supportive housing will receive additional services designed to promote social integration and ensure housing stability.

## **Project Schedule**

If the City Council approves this project, the following are the next steps anticipated to move forward with the development:

- 9 Percent Tax Credit Application                      June 29, 2016
- Tax Credit Award Notification                      September/October 2016
- Construction Start                                      May/June 2017
- Project Completion                                      December 2018

## **ENVIRONMENTAL REVIEW**

The project qualifies as exempt under the California Environmental Quality Act (CEQA) Section 15194 (“Affordable Housing Exemption”). This exemption is targeted to small affordable developments (less than 100 units and 5 acres) in urbanized areas, which can be served by existing utilities; are in areas where a community-level environmental review has occurred (e.g., General Plan or Precise Plan); and satisfy a long list of other criteria to ensure the site is free of contamination and the project would not impact the environment.

The project has also incorporated mitigation measures required by the El Camino Real Precise Plan Mitigation Monitoring and Reporting Program (MMRP), including utility and air quality analyses. Where required by the MMRP or analyses, design and/or construction requirements are incorporated into the project as conditions of approval. The project did not trigger requirements for a traffic analysis due to its small size, limited trip generation, and associated travel behavior.

## **FISCAL IMPACT**

Funding of the project will have no impact on the General Fund. The City loan to this project would be a total of up to \$8.0 million and would come from BMR In-Lieu, Housing Impact, and Rental Housing Impact funds. The total City funding includes the approximately \$1.0 million in predevelopment funds that have already been appropriated and would be rolled into this loan.

PAH will be managing and a general partner in the ownership structure. Due to PAH’s nonprofit status, the development will be exempt from paying property taxes. The

property currently contributes approximately \$3,000 in annual property tax revenues to the City.

Additionally, the City will not collect Park Land Dedication In-Lieu fees from this project due to the recently adopted modifications to the Park Land Acquisition Policy and Chapter 41 of the City Code (October 2015), which exempts projects from collection of park land fees in proportion to the number of affordable units provided at the very low- and low-income levels. Since the project is providing all units within these affordability levels, it is exempt from Park Land Dedication Fee payment.

## **CONCLUSION**

The proposed development will create new affordable housing for diverse populations within Mountain View, including military veterans and households in danger of becoming homeless. The proposed building employs an attractive design and high-quality amenities. PAH and their partners will provide vital supportive services and transit benefits for future residents. The project has been reviewed by the DRC and EPC at public meetings, with both bodies recommending project approval.

The identified funding sources, including, but not limited to, appropriations for the City loan, are anticipated to create a competitive project for the Federally funded tax credit funding program. If Council approves the project and tax credit funding is awarded, the project could be completed by early 2018.

## **ALTERNATIVES**

### **Project Alternatives**

1. Approve the project with modified conditions of approval.
2. Refer the project back to the EPC or DRC for further consideration and recommendations.
3. Provide other direction.

### Funding Alternatives

1. Appropriate a different amount than the \$6,978,390 in additional funding reserved in October 2015 for PAH's 67-unit development.
2. Choose not to appropriate additional funding for this project.
3. Provide other direction.

### PUBLIC NOTICING

Public noticing included posting of the agenda and publishing public hearing notices. Notices were mailed to all property owners and tenants within one-quarter mile of the project site and interested persons. The meeting agenda is advertised on Channel 26 and the agenda and Council report are available on the City website.

Prepared by:

Rebecca Shapiro  
Senior Planner

Vera Gil  
Project Manager – Affordable Housing

Terry Blount  
Assistant Community Development  
Director/Planning Manager

Approved by:

Randal Tsuda  
Community Development Director

Daniel H. Rich  
City Manager

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- Attachments:
1. Resolution Conditionally Approving the Project
  2. [City Council Report Dated March 22, 2016](#)
  3. Project Plans (Excerpt)
  4. [EPC Staff Report Dated May 18, 2016](#)
  5. EPC Hearing Public Comment Letters
  6. Density Bonus Request Letter
  7. Project Financing Summary (Pro Forma)