

**DATE:** October 13, 2020

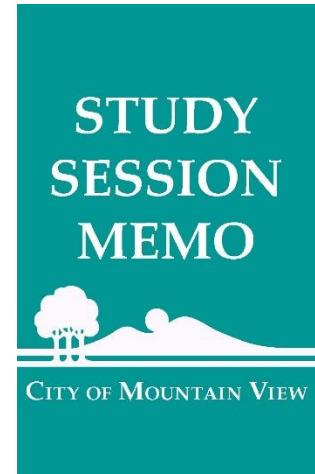
**TO:** Honorable Mayor and City Council

**FROM:** Wayne Chen, Assistant Community  
Development Director  
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Manager/Community Development  
Director

**VIA:** Kimbra McCarthy, City Manager

**TITLE:** **Lot 12 Remaining Development Priorities**

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## **PURPOSE**

Council to provide direction on remaining development priorities for Lot 12. Based on Council direction, staff and Related/Alta Housing will begin the Exclusive Right to Negotiate process that Council authorized on May 19, 2020.

## **BACKGROUND**

On May 19, 2020, Council selected Related/Alta Housing (formerly Palo Alto Housing) as the preferred development team (Developer) for Lot 12, which concluded the Lot 12 Request for Proposals process (RFP) (See Attachment 1). The Developer proposed the following:

- 120 residential units (all of the units deed-restricted to households earning 80 percent of Area Median Income (AMI) or less;
- 160 replacement parking spaces;
- 85 residential parking spaces; and
- 4,250 square feet of community-serving commercial.
- Three financing scenarios ranging in City subsidy amounts from \$4.25 million up to \$12 million for the affordable housing units and the non-residential/community-serving commercial uses. All financing scenarios relied on securing external affordable housing funding, including competing for State sources, and a \$10 million ground lease payment to the City.

At the meeting, staff was directed to return to Council to finalize remaining development priorities, including (1) whether replacement parking should be on-site or off-site; (2) what the non-residential use(s) should be, with a strong preference for child care; and (3) whether Measure A should be considered, given the potential tenant population and the limit on the City's ability to implement its live/work preference if County funds are included in the project.

Since the May 2020 Study Session, staff has held ongoing meetings with the Developer to discuss these items, which are discussed in detail below.

### **COVID-19 Impact**

Staff and Developer have been monitoring how COVID-19 may impact the Lot 12 development. The following is a summary of potential impacts:

- Increased need for stable, affordable housing. The pandemic has impacted the economy and employment, particularly lower-income jobs and households. This has made the living situation for those households particularly unstable because their ability to pay rent has decreased and they may be at increased risk of homelessness (although eviction moratorium provisions may provide temporary, limited stability). Additionally, the number of lower-income households may have increased given the economic impacts, increasing the need for affordable housing.
- Increased subsidy gap due to decline in estimated tax credit equity and overall uncertainty in affordable housing funding. The Developer has been actively monitoring challenges with affordable housing funding sources, particularly at the State level. Of note, the amount of equity that could be generated for Lot 12 under current market conditions from the low-income housing tax credit program, which is the most substantial of funding sources, is estimated to have declined by \$5 million to \$8 million since the Developer submitted its Lot 12 RFP proposal. Additionally, other existing State funding sources may be limited or not renewed. As such, funding sources in addition to what was in the Developer's proposal may need to be identified and/or the City may need to increase its subsidy contribution if there is an increased funding gap. **To minimize the potential funding impact, expeditiously moving the development of Lot 12 forward will be important.**
- Uncertainty in Downtown parking demand. The Lot 12 RFP requires that the project include the replacement of all 160 public parking spaces, with the flexibility to provide those spaces on-site or off-site in Downtown. This requirement has been reiterated by Council during the Lot 12 marketing process because of concerns about

Downtown parking demand and spillover parking into the residential neighborhoods. The COVID-19 pandemic and public health order restrictions have impacted the number of visitors to Downtown, as the number of both employees and patrons has significantly declined. This has impacted Downtown businesses and parking demand. It is uncertain to what extent parking demand and availability will be impacted in the long-term, but reduced parking demand is expected to remain at least for the short to medium term (about 1 to 5 years).

A separate staff team has begun the process of developing the Downtown Parking Strategy with consultants Nelson/Nygaard. The strategy will integrate four goals: (1) increase parking efficiency; (2) incorporate parking technology; (3) implement transportation demand management programs; and (4) increase parking supply. However, this strategy will also factor in potential longer term changes in parking demand and will not be done in time to inform a decision on Lot 12. The primary outcome of the Downtown Parking Strategy is a comprehensive plan that integrates parking policies/programs, management tools, and mobility programs into a phased toolkit for addressing parking issues. The timeline to complete this strategy is currently targeted for mid-2021.

- Child care operations and financing are in flux. The Developer discussed including child care facilities with the County Office of Education and the YWCA, and is open to discussing with other providers. However, the pandemic and Shelter-In-Place requirements have impacted the operations and financing of childcare facilities, which are expected to remain in flux for some time.

## DISCUSSION

Council identified three areas for further deliberation and directed staff to return in a Study Session for Council to determine these final development priorities, with a summary of the discussion as follows.

### Replacement Parking

#### *Summary of May 2020 Study Session Discussion*

The Lot 12 RFP included the requirement that all 160 public parking spaces on the site be replaced, but provided the option for applicants to locate the replacement spaces on-site or off-site in the Downtown area. The Developer's proposal gives the City the discretion whether the 160 spaces should be replaced on-site or off-site via an innovative financing strategy incorporating a \$10 million ground lease payment to the City. If the City chooses to have the replacement parking on-site, the City would put the ground lease payment

towards the project, and the Developer would develop Lot 12 with underground parking. Alternatively, the City could use the ground lease payment towards the cost of replacing the parking off-site. Further evaluation was needed to determine if the innovative financing strategy was viable.

### *Analysis/Considerations*

The following is a summary of subsequent analysis and considerations regarding replacement parking:

- Innovative ground lease payment financing strategy appears viable. The Developer has discussed its ground lease payment strategy with State financing agencies, and they have confirmed that it is a viable strategy and would not impact the ability of the project to qualify for and obtain State funding.
- If the parking spaces were replaced off-site, there could be some cost savings to the Lot 12 development, and the project could be delivered more quickly. Replacing the spaces on-site would require underground parking, which is costly and more complex to build. Without on-site parking replacement and the associated underground parking, the total cost of development would be reduced, and it would be quicker to complete and deliver the affordable housing. The decrease in development cost could offset some of the potential increase in subsidy gap caused by the current decline/uncertainty in external funding sources.
- If the public parking is replaced off-site, this information would need to be incorporated into the Downtown Parking Strategy. As mentioned above, development of the Downtown Parking Strategy is underway and will analyze how much additional parking supply may be needed based on projected growth and assumptions about future parking demand, although it is unclear if the current decrease in parking demand will be a long-term trend. If Council wishes for the Lot 12 public parking to be replaced off-site in Downtown, then the Downtown Parking Strategy may need to evaluate a third parking facility as part of its baseline analysis assumptions and in the final package of recommendations, assuming Council wishes to maintain the current level of public parking spaces. (The Downtown Parking Strategy will also evaluate opportunities to maximize existing parking facilities that are currently underutilized, coordinate on- and off-street parking management, and explore strategies such as shared parking and valet parking to increase public parking supply other than building more spaces). Where a third parking facility would be, how much it would cost, the timing of the delivery of a third facility, and other aspects would need to be determined through a process separate from Lot 12.

With the \$10 million ground lease payment as part of the financing strategy, the Developer remains prepared to replace the 160 spaces on-site or off-site per Council direction. The Developer has noted that off-site replacement could simplify the construction and lower the cost of development (which could offset some of the increased subsidy needed due to current market conditions), and allow the affordable housing units to be delivered more quickly.

Given the benefits of off-site replacement, staff recommends moving forward with the \$10 million ground lease payment as proposed in the Developer's submittal and replacing the parking off-site, with the note that several aspects of off-site parking replacement will need to be determined through a separate process.

***Question 1 of 2: Does Council support staff's recommendation for the replacement of the Lot 12 public parking off-site?***

#### Non-Residential Use – Child Care

##### *Summary of May 2020 Study Session Discussion*

The Lot 12 RFP requires the development to include non-residential use(s) up to 10,000 square feet for the purposes of creating a sense of place and to create an asset for the on-site residents as well as for the broader community. The Developer's proposal includes three different non-residential concepts/uses, including a nonprofit-run café, music school, and office space for a local non-profit, for a total of 4,250 square feet and a request of \$1.66 million in City subsidy for these uses. However, the Developer stated that it is open to other ideas. Council expressed a strong interest in child care as part of Lot 12, and the Developer agreed to further study this use.

##### *Analysis/Considerations*

The following is an update on considerations regarding child care:

- Child care operations/financing are in flux. Since May 2020, the Developer has had discussions with the County Office of Education and the YWCA regarding child care use on Lot 12. The pandemic and Shelter-In-Place requirements have impacted child care operations and financing, and the situation remains in flux due to the dynamic nature of the pandemic. The Developer is open to continuing to evaluate child care for Lot 12 and to have discussions with other providers..

- Incorporating child care as part of the Lot 12 development will impact the physical design of the project. City staff conducted a high-level review of potential child care use at the corner of Mercy and Bryant based on the Developer's preliminary study of the site. The Developer identified Mercy and Bryant as the more viable location because it is closer to the City library and Pioneer Park, and California and Bryant is a more highly trafficked corner. Staff noted that careful attention would need to be paid to parking, drop-off zones, queueing of cars for pick-up/drop-off, safety, adjacency with the residential uses and potential noise impacts, activating the corner of Mercy and Bryant to maximize the pedestrian experience, consideration of child care in the context of other nonresidential uses on the site, and other considerations. The Developer has and will continue to evaluate the design, operations, and funding for child care use of the site if Council wishes to include child care as part of Lot 12. The size and capacity of childcare use will depend on other issues including parking, drop off, play area, physical layout, and design of the project, etc.
- Having child care services resume operations will be an important part of the economic recovery. Working parents who can work from home but do not have access to safe, reliable child care must take care of their children during work hours. Working parents who do not have the option to work from home are even more significantly impacted. This is especially true for lower-income households, who are disproportionately employed in the service sector and must report to work. Onsite childcare would be an important resource for working families who will live in Lot 12, as well as for families in the broader community.

The Developer will continue to evaluate child care as part of the Lot 12 non-residential, community serving uses.

### Measure A

#### *Summary of May 2020 Study Session Discussion*

The Lot 12 RFP did not stipulate a target tenant population and also provided applicants the flexibility to propose different financing strategies, as the Council wanted the applicants to be innovative. In response, the Developer included three different financing scenarios. Of the three scenarios, staff recommended consideration of Scenarios 1 and 2. Both scenarios focus on lower-income households who earn 80 percent of area median income (AMI) or less as stipulated by the RFP, and include a City contribution of \$2.59 million for the affordable housing units.

Scenario 1 includes general affordable housing units financed with a significant amount of State tax credit financing and other State funding sources. This scenario does not include Measure A funding.

Scenario 2 includes State funding sources but, unlike Scenario 1, does include County Measure A funding for housing homeless persons. The two types of homeless units are permanent supportive housing (PSH) and rapid rehousing (RRH) units, as defined below per Measure A guidelines:

- Permanent Supportive Housing (PSH): “A type of housing program that provides permanent affordable housing and supportive services to individuals (and their families) who have disabling conditions. There is no limit to the length of stay and housing units are occupied by persons with lease agreements and have access to on-site or off-site services that are flexible, voluntary and individualized in order to assist an individual or family retain their housing, improve their health status, and maximize their ability to live, and, when possible, work in the community. PSH programs are typically prioritized for chronically homeless persons and families or other populations with significant health needs.”
- Rapid Rehousing (RRH): “A type of housing program connects families and individuals to permanent housing through time-limited financial assistance and targeted supportive services. RRH program participants are provided shallow or declining rent subsidies, other temporary financial assistance, and time-limited case management and other support services. In RRH programs, individuals and families eventually take over the full rent of their leased housing units. After ‘transitioning in place,’ the individuals and families may reside in the unit so long as they abide by the lease. If and when RRH unit becomes vacant, the unit is filled by a new RRH participant. To ensure that individuals and families can transition in place, units that are set aside for RRH programs shall have their rents restricted to a level affordable to households earning no more than 30% of AMI, adjusted for household size.”

Additionally, PSH/RR units funded by Measure A would need to house tenants from the County’s waitlist. At the May 2020 Study Session, some community members expressed concern about homeless persons at Lot 12, especially chronically homeless persons in PSH units. Separately, Council expressed concern about not being able to implement its live/work in Mountain View preference in Measure A-funded units given the priority that such units would give to the County’s own waitlist. A County representative who attended the meeting clarified that Measure A limits the City’s ability to implement its local preference only on the PSH/RR units (and not on the other units), but also that there are ways to market the PSH/RRH units to the City’s residents to significantly increase

their chances of being placed into the units. Staff notes that other funding sources besides Measure A could also limit the City's ability to implement its live/work preference.

### *Analysis/Considerations*

The following is a summary of subsequent analysis and considerations regarding Measure A funding for Lot 12:

- Measure A funding would result in the creation of housing units for the homeless, with some flexibility in the type of homeless housing and the number of such units. The Measure A program includes two types of projects that a developer could choose from:
  - A "Type 1" project is for chronically homeless persons. It requires that 50 percent of a project's total units be for PSH and includes up to 40 years of operating subsidies to pay for the services needed by the tenants. Because the Developer is proposing 120 units for Lot 12, including Measure A as a funding source would require that **60 units be for PSH** if this were a Type 1 project, and those units would prioritize the County's waitlist but targeted marketing to those currently living or working in the City would be incorporated.
  - A "Type 2" project requires one-third of the units be PSH or RRH units, one-third of the units for extremely low-income households earning 30 percent AMI or less, and one-third of the units for low-income households earning 80 percent AMI or less. Because the Developer is proposing 120 units for Lot 12, including Measure A as a funding source would require that **40 units be for PSH or RR**, and those units would prioritize the County's waitlist but targeted marketing to those currently living or working in the City would be incorporated. Under a Type 2 project, the Developer would have the flexibility to include only RR units and no PSH units.
  - The County is open to working with the City and Developer on evaluating the potential for a third option that could include fewer PSH/RR units on Lot 12 than what a Type 1 or Type 2 project would require. Under this third option, the City and County would work together to achieve up to **250 units of PSH/RR units Citywide** as identified in the City's affordable housing investment plan. Under this programmatic/Citywide approach, the County would be open to considering flexibility on the number of PSH/RR for any one particular project, including Lot 12, so long as the Citywide total is achieved. The City currently has two Measure A projects in the pipeline - La Avenida and Montecito - totaling 75 units of PSH/RR that would count towards the



Citywide goal. There are other projects in the City's pipeline with potential for Measure A funding but those projects are still early in the process. If Lot 12 incorporates Measure A funding, any PSH/RR units would also count towards the 250 unit Citywide goal.

If Council is open to Measure A funding, it could stipulate that the Developer prioritize a Type 1 or Type 2 project, and, if a Type 2 project, to prioritize PSH, RRH, or provide the Developer flexibility to choose; or Council could direct staff/Developer to work with the County on a possible third option.

If the Council prefers that the Developer not seek Measure A funding, then Lot 12 would not include PSH or RR units.

- There could be limitations on the City's ability to implement its live/work preference, even if Measure A is not included in the financing strategy. The City has a policy that gives preference for affordable housing to those who live or work in Mountain View, and this policy is implemented whenever possible. However, different financing sources, including Federal or State sources, may have requirements that could limit the City's ability to implement its live/work preference.
- Measure A could provide funding to fill the increased subsidy gap as a result of the decline of tax credit equity. As mentioned, current market conditions has caused a decrease in the amount of tax credit equity that could be generated for Lot 12, and it has also increased uncertainty regarding the availability of other funding sources. The Developer has evaluated other external funding sources and determined that Measure A may be one of the few external funding sources that could potentially provide more subsidy. If Measure A is not part of the financing strategy, an increased subsidy gap could potentially be partially offset by cost reductions from replacing the public parking off-site and/or by increasing the amount of City subsidy. Note that City funding for Lot 12 will include \$1 million in Successor Agency funds, which requires providing affordable units for extremely low-income households earning 30 percent AMI or less.

The Developer is prepared to apply for Measure A funding or to proceed with a project that does not include Measure A funding, pending Council direction.

***Question 2 of 2: Does Council support Measure A funding for Lot 12? If so, should the Developer apply for a Type 1 project, a Type 2 project, or work with County and staff on a possible third option as mentioned above?***

## **RECOMMENDATION**

It is recommended that Council provide input on the following two questions:

- *Question 1 of 2: Does Council support staff's recommendation for the off-site replacement of the Lot 12 public parking?*
- *Question 2 of 2: Does Council support Measure A funding for Lot 12? If so, should the Developer apply for a Type 1 project, a Type 2 project, or work with County and staff on a possible third option as mentioned above?*

Given the uncertainty of affordable housing funding sources, providing clear direction on these questions during the Study Session will be very important. This will allow staff and the Developer to enter into the 90-day Exclusive Right to Negotiate period as soon as possible following this Study Session. During this negotiation period, the Lot 12 ground lease and development and disposition agreement (DDA) will be developed and include project details, including the replacement parking, non-residential use, and project financing.

## **NEXT STEPS**

In late October 2020, staff will begin the exclusive right to negotiate agreement between City and Developer. The Developer pays the City a nonrefundable \$50,000 deposit, which begins a 90-day negotiation process.

At the May 2020 meeting, Council authorized the City Manager or her designee to enter into the negotiation agreement, as well as to extend the 90-day negotiation period for an additional 60 days if negotiations are not complete but are progressing. A 60-day extension would require an additional non-refundable deposit of \$25,000 as stipulated in the RFP.

Following negotiations, staff anticipates returning to Council regarding terms and authorization to enter the DDA and ground lease early in the first quarter of 2021.

**PUBLIC NOTICING**

Agenda posting.

AS/WC/4/CAM  
821-10-13-20SS  
200366

Attachments: 1. May 19, 2020 Council Selection of Lot 12 Development Team