

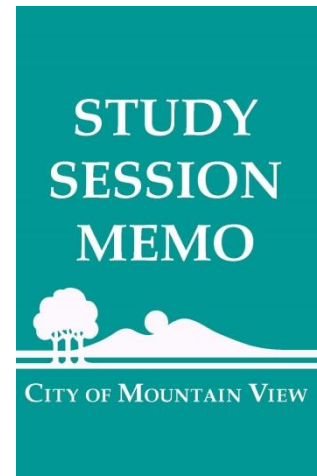
DATE: May 16, 2017

TO: Honorable Mayor and City Council

FROM: Wayne Chen, Housing and Neighborhood
Services Manager
Randy Tsuda
Community Development Director

VIA: Daniel H. Rich, City Manager

TITLE: **Draft North Bayshore Affordable Housing
Administrative Guidelines**



PURPOSE

That the City Council review and provide input on the Draft North Bayshore Affordable Housing Administrative Guidelines.

BACKGROUND

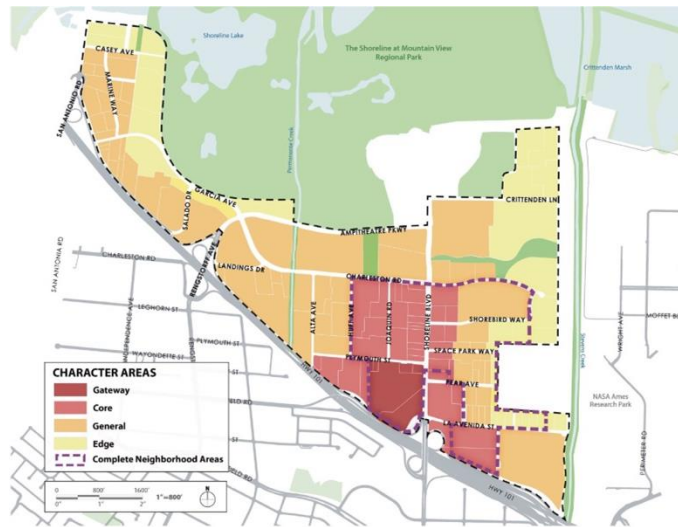
The update of the North Bayshore Precise Plan (NBPP) provides an opportunity to create a one-of-a-kind, dynamic, mixed-use community through the addition of both market-rate and affordable housing to one of the world's leading centers of innovation, and is one component of the Plan's overall effort to create complete neighborhoods and a mix of housing opportunities. The successful implementation of this strategy will provide housing opportunities to meet the diverse needs of the workforce and community, while enhancing the economic and environmental sustainability of the City.

Summary of North Bayshore Precise Plan Affordable Housing Strategy

Since January 2015, the City has been working on amending the existing NBPP approved by the City Council in 2014. Since that time, significant input on housing goals and priorities has been gathered through several meetings with the Environmental Planning Commission (EPC) and City Council, as well as during community workshops. Several recurring themes regarding housing were identified during the input-gathering process, including: develop more urban, high-density residential development; achieve a range of affordable housing units at different income levels; create units that are more compact; incorporate a variety of transportation demand management strategies; and set the right Bonus FAR levels to incentivize development. Based on the input provided for housing and other key elements, a

preferred alternative for North Bayshore and an updated draft NBPP have been developed.

The preferred NBPP alternative includes the addition of up to 9,850 residential units with a goal that at least 20 percent of the total units be affordable units. As shown in Map 1, these housing opportunities are to be located in three “character areas” in North Bayshore: the Gateway/Core area, which has the greatest development intensity (up to 15-story buildings); the General area, which has a medium level of intensity (up to 7- and 8-story buildings); and the Edge area, which as the lowest development intensity but is still urban in form (up to 4-story buildings).



Map 1 – North Bayshore Character Areas

Additionally, the updated draft NBPP provides a Bonus FAR program as a mechanism to help achieve the Precise Plan’s affordable housing goals. Residential developers would still have the option to satisfy their affordable housing obligations through the City’s Rental Housing Fee program, the BMR ownership program, or the City’s existing Density Bonus Program. However, it is the intent that a substantial increase in development rights conferred through the Bonus FAR program would incentivize residential developers to select this option and to provide additional affordable housing in exchange. The Bonus FAR program currently proposes two “Tiers.” Tier 1 provides a certain increase in development capacity for a 15 percent affordable housing obligation, while Tier 2 provides a higher increase in development capacity for a 20 percent affordable housing obligation, as summarized in Table 1 below.

Table 1 – Current NBPP Bonus FAR Tiers and Affordable Housing Requirements

| Character Area | Base FAR | Tier 1 Bonus (15% Affordable Housing Requirement) | Tier 2 Bonus (20% Affordable Housing Requirement) |
|----------------|----------|---|---|
| Gateway/Core | 1.0 | 3.50 | 4.20 |
| General | 1.0 | 2.50 | 3.50 |
| Edge | 1.0 | 1.85 | n/a |

Finally, the NBPP provides developers the ability to meet their Tier 1 or 2 affordable housing obligations by either building the units, dedicating land to the City, or a combination of both. Figure 1 below provides a summary of the affordable housing provision options.

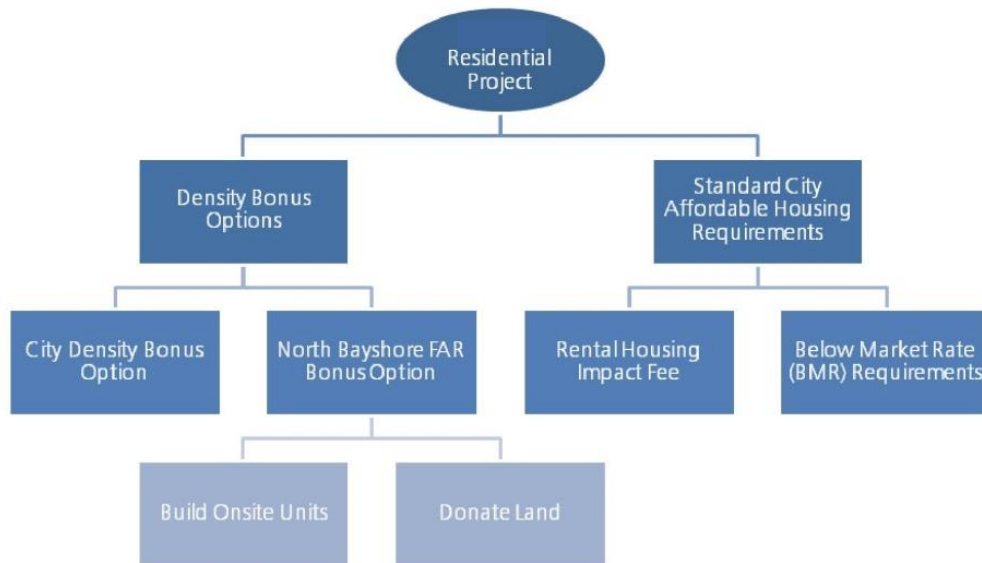


Figure 1 – North Bayshore Affordable Housing Provision Options

Since the November 2016 EPC and City Council meetings regarding the NBPP, staff and the consultant team have worked to develop a draft of the Affordable Housing Administrative Guidelines (“Guidelines”) that will accompany the NBPP. These Guidelines will facilitate implementation of the North Bayshore affordable housing strategy by providing a framework and process for developers to follow when submitting residential development proposals.

DISCUSSION

This section of the report summarizes the draft Guideline’s Bonus FAR Tiers and accompanying affordable housing requirements; the options available to meet the affordable housing requirements (e.g., building affordable units on-site or dedicating land), and other key components. Additionally, four questions regarding these components are provided for the City Council’s consideration. These four questions were also provided to the EPC at its May 3, 2017 meeting. The EPC’s input on these questions and other items is included in the relevant sections below.

Key guiding principles were used in developing the Guidelines. In summary, staff felt that it was important that the Guidelines should accomplish the following objectives:

- Achieve the North Bayshore affordable housing objectives across the range of needs and incomes.
- Provide clarity for the project applicant about the affordable housing requirements, goals, and expectations.
- Provide some flexibility for both the project applicant and City while still meeting the City's affordable housing requirements, goals, and expectations.
- To the extent possible, facilitate ease of implementing the North Bayshore affordable housing objectives.

The development of the draft Guidelines reflects the direction from the City Council received to date regarding the NBPP. Additionally, the City held a developer stakeholder meeting with both nonprofit and for-profit developers on February 8, 2017 in order to receive input on key Guideline components. The draft Guidelines are attached as Attachment 1 of this Study Session Memo. The draft Guidelines were also posted to the City's North Bayshore Precise Plan website and distributed via e-mail to individuals who registered to receive information regarding the NBPP.

Summary of Key Guideline Components

Bonus FAR Tiers and Affordable Housing Requirements

As indicated in the Background section above, the updated draft NBPP currently includes a two-tiered Bonus FAR program composed of a Tier 1 (up to 3.5 Bonus FAR for a 15 percent affordable housing requirement) and a Tier 2 (up to 4.2 Bonus FAR for a 20 percent affordable housing requirement). Additional testing of these Bonus FAR Tiers indicates that a Bonus FAR between 2.5 and 3.5 provides a financially feasible return based on traditional development models and current conditions. On the other hand, although a Bonus FAR of 4.2 confers more development rights than 3.5—which might suggest enhanced financial returns for Tier 2—the additional costs associated with potentially different construction type (from wood frame to steel) and the parking needed for a residential development at Tier II may not be sufficient for a 4.2 Bonus FAR to offset those costs.

As a result, it is recommended that the Bonus FAR Tiers be adjusted in order to maintain Tier 1 feasibility while simultaneously enhancing the feasibility of Tier 2

product types and of achieving its associated 20 percent affordable housing requirement. The recommended change is specific to the Gateway/Core areas, with the Tier 1 Bonus FAR adjusting from 3.50 to 3.20 and the Tier 2 Bonus FAR adjusting from 4.20 to 4.50. The Bonus FAR levels for the General and Edge areas would remain the same as the current levels for both Tier 1 and Tier 2. This recommended adjustment to the Gateway/Core areas maintains the underlying characteristics and premises of the Precise Plan. Table 2 below summarizes the recommended adjustment.

Table 2 – Recommended NBPP Bonus FAR Tiers and Affordable Housing Requirements

| Character Area | Base FAR | Tier 1 Bonus FAR (15% Affordable Housing Requirement) | | Tier 2 Bonus FAR (20% Affordable Housing Requirement) | |
|----------------|----------|---|-----------------|---|-----------------|
| | | Current | Recommended | Current | Recommended |
| Gateway/Core | 1.0 | 3.50 | 3.20 | 4.20 | 4.50 |
| General | 1.0 | 2.50 | Same as Current | 3.50 | Same as Current |
| Edge | 1.0 | 1.85 | Same as Current | n/a | n/a |

At the May 3 meeting, the EPC supported the adjustment of the Bonus FAR levels for the Gateway/Core character areas for both Tier 1 and 2 as recommended by staff. The straw poll was 6-0 in support of the recommended adjustment.

Question 1: Does the City Council support adjusting the Bonus FAR level for Tier I from 3.5 in the Gateway/Core area to 3.2, and increasing the Bonus FAR level from 4.2 to 4.5 in Tier II in order to facilitate the affordable housing requirements?

Options for Meeting the Tier 1 or 2 Affordable Housing Requirements

The NBPP provides two alternatives for meeting the Tier 1 or 2 affordable housing requirements. The first option is for the project applicant to build the affordable units on-site, whether integrated into mixed-income buildings with market-rate units or as a stand-alone building with 100 percent of the units as affordable housing. The second option is to dedicate land to the City in a size, configuration, and state of project readiness that would be able to facilitate the construction of affordable housing required as part of the Tier 1 or 2 requirements.

Requirements for On-Site Development of Affordable Housing

This subsection of the report focuses only on the requirements for on-site development of affordable housing. Requirements for land dedication will be discussed later in the report.

- Affordability Mix

The draft Guidelines include requirements for a mix of housing units at different income categories for Tier 1 and Tier 2. The unit mix includes consideration of a range of income levels, due to the affordable housing needs across the spectrum. Additionally, the City Council has expressed the desire to facilitate more “missing middle” housing. Finally, because the Bonus FAR program is a Density Bonus Program, the recommended income targets require the project to meet the minimum affordability requirements contained in the State’s Density Bonus Law.

For the development of affordable housing on-site, it is recommended that affordable units for renter housing include Very Low (VLI), Low (LI), and Moderate (MOD) income units. It is recommended that the units for ownership housing include Low (LI), Moderate (MOD), and Above Moderate (Above MOD) income units. Table 3 below summarizes the proposed affordability mix for both rental and ownership housing units by Tiers.

Table 3 – Proposed Affordable Housing Mix

| Income Category | Tier 1 Bonus (15% Affordable Housing Requirement) | | Tier 2 Bonus (20% Affordable Housing Requirement) | |
|-----------------------------------|---|--|--|--|
| | Rental | Ownership | Rental | Ownership |
| Very Low (VLI) | 5% of units affordable at 50% AMI or lower* | | 5% of units affordable at 50% AMI or lower* | |
| Low (LI) | 5% of units affordable 65% AMI average or lower | 5% of units affordable at 80% AMI or lower | 5% of units affordable at 65% AMI average or lower | 5% of units affordable at 80% AMI or lower |
| Moderate (MOD) | 5% of units affordable at 100% AMI average or lower | 10% of units affordable at 110% AMI or lower* | 10% of units affordable at 100% AMI average or lower | 10% of units affordable at 110% AMI or lower* |
| Above Moderate (Above MOD) | | | | 5% of units affordable at 135% AMI or lower |

* These provisions allow the North Bayshore Bonus FAR program to meet the requirements of State Density Bonus Law by providing these minimum percentages of units at these household incomes based on Areawide Median Income (AMI).

Regarding affordable rental housing, 5 percent of the units shall be VLI with affordable rents at 50 percent AMI or lower. For LI units, there shall be a range of units provided above 50 percent up to 80 percent AMI, such that the average rent across the units in the LI category is 65 percent AMI or lower. For MOD units, there shall be a range of units

provided above 80 percent up to 120 percent AMI, such that the average rent across the units in the MOD category is 100 percent AMI.

Regarding affordable ownership housing, LI purchase prices shall be set at 80 percent AMI or lower. For MOD units, 10 percent of the units shall have purchase prices affordable at 110 percent AMI or lower. For Above MOD units, the purchase price may be set at 135 percent AMI or lower. The recommended income categories and levels are higher for affordable ownership housing than for affordable rental housing because: (1) the economics of developing ownership units are different than for rental units; and (2) higher incomes provide owner households a greater likelihood of long-term owner success and a lower likelihood of foreclosure. For reference, the financial feasibility analysis estimates that a 1-bedroom, 2-bedroom, and 3-bedroom ownership unit at the 110 percent AMI level would be approximately \$364,000, \$417,000, and \$470,000, respectively; those costs would be \$473,000, \$540,000, and \$607,000, respectively, at the 135 percent AMI level. Currently, there are few if any ownership opportunities in Mountain View at these price levels: the most recent data indicate that the average sales price in Mountain View for a condominium/townhome is nearly \$1.1 million and \$1.9 million for a single-family home.

At the May 3 meeting, the EPC supported the proposed affordable housing mix for Tier 1 affordable rental and ownership housing (5-1 straw poll) and Tier 2 affordable rental housing (5-1 straw poll).

However, the EPC was split 3-3 regarding the recommended income levels for Tier 2 affordable ownership housing. While half of the EPC felt that the recommended income levels provide a needed range of affordable ownership housing opportunities, especially for the missing middle, the other half felt that the recommendation for ownership housing affordable at 135 percent AMI was too high. Instead, the EPC supported an alternative mix of 7.5 percent of the units affordable in the Low Income category and 12.5 percent of the units affordable in the Moderate Income category (4-2 straw poll).

Question 2: Does the City Council support the staff-recommended affordable housing mix as shown in Table 3 above in order to meet the City's goal of creating a range of housing opportunities?

- Eligible Households

Affordable housing units in North Bayshore shall be rented or sold to eligible households at certain income levels. For the purposes of the NBPP, income categories are based on a percentage of the Area Median Income ("AMI")—which is the income

where half of the households make more than that amount and half of the households make less than that amount—in Santa Clara County and adjusted by household size. For reference, the AMI for a one-person household in Santa Clara County is \$74,950 and \$107,100 for a four-person household. These figures are published annually by the California Department of Housing and Community Development. The following household income categories will be used in North Bayshore:

- **Very Low Income (VLI)** household means a household whose income is 50 percent AMI or below.
- **Low Income (LI)** household means a household whose income is above 50 percent up to 80 percent AMI.
- **Moderate Income (MOD)** household means a household whose income is above 80 percent up to 120 percent AMI.
- **Above Moderate Income (Above MOD)** household means a household whose income is above 120 percent up to 145 percent AMI.

Additionally, the draft Guidelines include the provision that households may qualify for an affordable unit if they earn an income up to 10 percent above the affordable rent or purchase price of a particular unit. For example, a household earning from 50 percent AMI up to 60 percent AMI may qualify for a 50 percent AMI rental unit, or a household earning from 100 percent AMI up to 110 percent AMI may qualify for a 100 percent AMI rental unit. For affordable ownership units, a household earning from 80 percent AMI up to 90 percent AMI may qualify for an 80 percent AMI ownership unit, or a household earning from 135 percent AMI up to 145 percent AMI may qualify for a 135 percent AMI ownership unit, for example.

Flexibility provided by an income cushion is intended to provide households a better chance to save for emergencies or life needs. It is common for families and households in Mountain View and in the region to spend more than 30 percent—and sometimes 50 percent or more—of their income on housing costs, which is considered to be an unaffordable level that creates a housing burden. In affordable housing units, it is typical for a low- or moderate-income household that earns an income at or below the AMI level of the affordable unit to inhabit that unit. For example, if a VLI unit with rents set at the 50 percent AMI level is inhabited by a household earning an income at 50 percent AMI, the household's budget would be at the maximum for housing costs, providing little if any cushion to respond to emergencies or to plan for the future. The importance of an income cushion is also true for owner households, as they have homeowner expenses related to maintenance or repairs. The savings from the income

cushion allowed by the Guidelines is also a homeless prevention tool, as one of the paths to homelessness is the inability for households to absorb a financial shock when high housing costs stretch their incomes too thinly, especially for low- and moderate-income households.

At the May 3 meeting, the EPC was split 3-3 regarding the concept of providing an income cushion. The Commissioners who supported the concept felt that an income cushion increases the ability of households to save, which provides greater stability, helps households respond to unforeseen situations, and is a homelessness prevention tool.

Conversely, the Commissioners who did not support the concept were concerned that households at the higher end of the 10 percent income cushion range may crowd out households at the lower end of the range, that there is an insufficient number of units for Very Low Income households, that it is possible that a Low Income household may significantly increase its income over time, but that it is preferable to allow household incomes to grow over time rather than allowing an up-front cushion upon initial tenancy.

Some Commissioners on both sides of the vote indicated that the affordable housing mix should reflect the demographics of who will be served and the need.

The EPC deliberated on an alternative proposal to have strict household eligibility criteria without an income cushion, but to allow incomes to grow over time. This alternative proposal received a 3-3 straw poll by the EPC.

Question 3: Does the City Council support the policy to provide an income cushion?

- Bedroom Mix

The mix of affordable units in terms of bedroom size shall be the same as the market-rate mix. However, the City may direct a different unit mix to meet the goals of the NBPP.

At the May 3 meeting, the EPC initiated a straw poll that for affordable housing built on land dedicated to the City, the City should encourage larger units in terms of bedrooms. This is based on the EPC's concern that more affordable housing opportunities are needed for families. The straw poll yielded a 6-0 result. Staff indicated that the draft Guidelines includes language that provides the City the ability to direct a different unit mix.

- Location and Design

All affordable units shall be dispersed throughout the project. For a mixed-income residential development up to 9 stories, the affordable units shall be evenly distributed throughout the first five floors or higher. For residential structures that are 10 stories or higher, the affordable units shall be evenly distributed throughout the bottom 60 percent of the floors or higher.

The square footage and design of the affordable units must be reasonably consistent with the market-rate units in the development. All affordable units shall be comparable to the market-rate units in terms of appearance, materials, and finish quality of the market-rate units in the project. However, the exterior design of the units shall be consistent with other units in the project.

Affordable units shall have access to all project amenities and recreational facilities available to market-rate units.

- Concurrent Development

All below-market-rate units in residential developments shall be constructed concurrently with or prior to the construction of market-rate units.

Requirements for Land Dedication

The project applicant may dedicate land to the City rather than build the affordable housing units on-site in order to meet their affordable housing requirements.

- Land Dedication Methodology

If the project applicant dedicates land, the parcel size shall be the larger of a minimum of 0.75 acre of developable area or a percentage of developable area based on the Bonus FAR Tier for the proposed development (e.g., 15 percent land dedication for Tier 1 and 20 percent land dedication for Tier 2). The developable area excludes sidewalks, streets, or other public rights-of-way. The site shall have a minimum width and depth sufficient for a feasible affordable housing development.

The developable building square footage on the dedicated parcel shall be calculated based on the allowable building FAR that is associated with the selected Bonus FAR Tier for the character area where the proposed development is located. An alternative land dedication methodology may be allowed in order to meet the Precise Plan

affordable housing policies and requirements if the above methodology does not accomplish this.

Unbundled Parking

The draft NBPP requires a variety of transportation demand management (TDM) policies, including unbundled parking. By separating the prices of the parking from the cost of the housing, unbundling parking seeks to make housing more affordable, to facilitate walkability, and to minimize auto-oriented trips. Both market-rate and affordable housing developments would be required to unbundle parking. Renters and owners of affordable housing may be charged rent or a purchase price for each parking space at an amount that is lower than the market price of the parking space. Unbundled parking would not be required for affordable housing developments that have funding sources prohibiting unbundled parking, such as the low-income tax credit program, unless such program allows unbundled parking in the future.

Duration of Housing Affordability

Given the chronic lack of affordable housing in Silicon Valley, the persistence of high housing costs in Mountain View, and the concern regarding displaced tenants, the affordable housing units created through the NBPP are proposed to remain affordable in perpetuity, i.e., without expiring, whether through the building of units on-site or through land dedication. Affordable housing is typically deed-restricted for 55 years. At the end of the 55 years, the deed restriction expires and the affordable units convert to market-rate units unless the affordability is preserved. Requiring affordable housing units to remain in perpetuity preserves the long-term supply of such housing.

However, the City recognizes that conditions can change over time. Housing units may need to be repurposed or replaced in order to continue to provide decent, safe, and affordable housing, or a different land use may be more appropriate in the future. A property owner who seeks any changes that would impact the affordable housing on their property shall submit a North Bayshore Affordable Housing Preservation Plan describing their proposed plan for the full preservation or replacement of these units. Prior to any changes to the affordable housing portion of the property, the City must formally approve the Preservation Plan.

At the May 3 meeting, the EPC unanimously supported (6-0 straw poll) the goal that the affordable housing units developed in North Bayshore remain affordable in perpetuity. The EPC indicated that the affordable housing challenge has and will be a long-term problem, that this makes a good policy statement, and that the City can be a leader in this regard.

Question 4: Does the Council support the goal that the affordable housing units developed in North Bayshore remain affordable in perpetuity?

Additional Discussion at the May 3, 2017 EPC Meeting

In addition to the input provided by the EPC as summarized above under each of the four questions, the EPC discussed the issue of including housing preferences in the Guidelines. The Commission initiated a straw poll recommending that further study be conducted regarding including a preference for North Bayshore employees for affordable housing in the Guidelines. The straw poll yielded a 6-0 result.

In response to this discussion, staff indicated that the inclusion of employee preferences in the update of the North Bayshore Precise Plan has been studied on a preliminary basis and could present some legal challenges. Further direction would be needed regarding particular preferences in order to determine whether a preference system would comply with State and Federal housing laws.

RECOMMENDATION

The City Council is requested to provide input on the four questions in this report related to the Draft North Bayshore Affordable Housing Administrative Guidelines.

NEXT STEPS

Final draft Guidelines will be included as part of the overall NBPP for the City Council's consideration, currently scheduled for June 27, 2017.

PUBLIC NOTICING

Public notice of this Study Session was provided at least 10 days prior to the May 16, 2017 City Council meeting. Notice was sent to the North Bayshore Precise Plan distribution list and a link to the report was sent to affordable housing stakeholders.

WC-RT/7/CAM

821-05-16-17SS-E

Attachment: 1. Draft North Bayshore Affordable Housing Administrative Guidelines