



**DATE:** October 20, 2015

**CATEGORY:** New Business

**DEPT.:** Community Development

**TITLE:** **Palo Alto Housing NOFA Proposal –  
1701 West El Camino Real**

### **RECOMMENDATION**

The NOFA (Notice of Funding Availability) Review Committee recommends that the City Council:

1. Reserve funding for the Palo Alto Housing (PAH) NOFA application.
2. Add \$8,000,000 in affordable housing funds to the NOFA and reserve a total of \$8,000,000 for a 60-unit affordable studio apartment development.

Staff recommends the City Council:

1. Appropriate \$831,610 in Housing Impact fees to predevelopment costs and authorize the City Manager to enter into an agreement with PAH for the use of the predevelopment funds. (Five votes required)
2. Appropriate an additional \$190,000 in Housing Impact fees for environmental, parking, and other special studies for this project. (Five votes required)

### **BACKGROUND**

In February 2014, the City of Mountain View released a NOFA in the amount of \$12.5 million for new affordable housing developments. Although there has been significant interest in the NOFA, it has taken some time for affordable housing developers to secure sites in this competitive real estate market. In addition to the \$12.5 million, \$3.0 million was also made available for exceptional projects. These funds were made available on a first-come, first-served basis.

On December 16, 2014, the City Council added an additional \$6.0 million in affordable housing funds to the NOFA and reserved a total of \$21.5 million for ROEM

Corporation's 116-unit affordable development at 779 East Evelyn Avenue. The Council also voted to allow two additional NOFA applications to proceed through the funding reservation process: PAH's 1701 West El Camino Real development and MidPen Housing's proposal for a 51-unit family development on their existing Shorebreeze property at 460 Shoreline Boulevard.

The purpose of this item is for the City Council to: (1) consider the NOFA proposal from PAH; and (2) determine if the proposal should receive a funding reservation and be allowed to continue in the entitlement process. If the City approves a reservation of funding, the proposal will go through the City's development and design review process, which is anticipated to take approximately nine months. During this time, there will be opportunities for public input at neighborhood meetings, Zoning Administrator hearings, Development Review Committee meetings, and other public hearings. PAH's NOFA application contains a preliminary design concept for the site that will become more defined as the project moves through the entitlement process. The final funding commitment will only occur after there has been careful consideration of all the project details and upon final approval by the City Council.

## **ANALYSIS**

### **NOFA Review Committee**

The Committee is comprised of Councilmembers Kasperzak and Siegel and Committee Chair Clark. The purpose of the NOFA Review Committee is to review all NOFA funding applications and determine whether the proposals should move forward to the full Council for consideration.

On September 22, the NOFA Review Committee met to review the PAH NOFA proposal for a 60-unit affordable studio project at 1701 West El Camino Real (Attachment 1). The Committee discussed the financing options for the development as well as project costs and the target population for the development. The Committee voted 3-0 to move the project forward to the Council for a reservation of funding.

### **NOFA Proposal**

#### **Project Description**

In the PAH application they are proposing a five-story, 60-unit studio development affordable to households with incomes at 60 percent Area Median Income (AMI) and below. Half of the units will be reserved for veterans and the remaining 30 units will be available to others. Fifteen (15) of the 30 veteran units will be reserved for supportive

housing units and services to veterans. On-site amenities will include a community room with kitchen, computer stations, laundry facilities, and space for support services. A preliminary site plan and architectural drawing are included at the back of Attachment 1.

### Site Location

The .49-acre (21,223 net square feet) vacant site consists of two irregular-shaped parcels located at the southwest corner of West El Camino Real and Rich Avenue, and is located in the El Camino Real Precise Plan area. Transportation is easily accessible from the site with four Valley Transportation Agency (VTA) bus routes within a one-half 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. Rail access is well within a two-mile radius; however, the tenants would need to take VTA bus line 52 or walk the 1.5 miles to the Mountain View Transit Center to access light rail or Caltrain service.



The property is adjacent to retail-commercial development 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 from this site.

### Project Design

The proposal includes 60 studio units distributed across five residential floors, plus one level of underground parking. The underground garage has 33 parking spaces and takes vehicle access from Rich Avenue. The garage also includes secure bicycle parking for 75 bicycles, which exceeds the standard of one secure bicycle parking space per unit.

The proposed vehicle parking ratio is 0.55 spaces per unit. This ratio is similar to the parking ratios for the San Antonio Place efficiency studios and the recent 819 North Rengstorff studios project, which are .60 and .62 spaces per unit, respectively. At San Antonio Place, a 2012 parking survey found that the actual parking demand was .43

spaces per unit. The location of the proposed project is most similar to the San Antonio Place efficiency studios, as both projects are located close to high-frequency transit services, shopping, and jobs, which reduces parking demand.

The amount of required parking influences the number of units that can be built on a site and has a direct impact on the project design and costs. The parcel size, irregular shape, and street frontage conditions constrain garage configurations for the project site. As part of the development review process, a parking study analyzing parking demand would be prepared and brought to the Council for review early in the entitlement process. Based on Council action, the required on-site parking may be different than the proposed parking ratios in the initial proposal. If the Council decides to reserve funding for this project, the applicant will proceed with the required parking study in addition to the development and environmental review processes.



### Entitlement Requirements

The site is in the Medium-Intensity Corridor subarea of the El Camino Real Precise Plan and has a Mixed-Use Corridor General Plan Land Use Designation. Residential development is permitted on the parcel at up to 1.35 floor area ratio (FAR) and three stories/45' without a public benefit contribution and up to 1.85 FAR and four stories/55' with a public benefit contribution.

The development will require a Planned Community Permit as part of the development review process, and proposes to utilize State Density Bonus Law to allow the building size of 1.97 FAR, building height of five stories, and potentially relief from other development standards necessary to construct the project.

### Developer Site Control

Finding residential sites in Mountain View has been challenging for affordable housing developers and the prime sites have been secured by market-rate developers who can

afford to pay more for the properties. PAH entered into a purchase agreement on the site on November 5, 2014 and closed escrow on the property in early April 2015. The total cost for the .49-acre parcel was \$5.2 million. Three separate appraisals have been conducted on the site for the highest and best use. All three appraisals, two commissioned by PAH and one commissioned by the City, have supported the \$5.2 million sale price. The high property cost results in a high project cost for this proposed development. Land prices along El Camino Real have historically been higher than other areas of the City and with the adoption of the El Camino Real Precise Plan, the value of land along El Camino Real has increased.

### NOFA Evaluation

The City of Mountain View Affordable Housing NOFA application (Attachment 2) identifies 12 project goals and two housing priorities that should be used to evaluate the proposals. Attachment 3 contains the discussion of how the project meets each of these goals and priorities. The proposal submitted by PAH meets each of these goals and priorities. The main concern with the proposal is the high development cost for this project. Table 1 below shows the per-unit development cost for the City's last four affordable projects and the PAH proposal. The PAH development costs are driven by high land costs and a sharp rise in construction costs. However, PAH has been able to leverage outside funding sources and as a result has a substantially lower per-unit subsidy cost. If a City subsidy above the \$5.8 million is needed to make the project more competitive for tax credit funding, the total project cost, project cost per unit, City subsidy cost, and per-unit subsidy cost would increase accordingly.

**Table 1. Comparison of Affordable Housing Development Costs**

<b>Project</b>	<b>No. of Units/ No. of Bedrooms</b>	<b>Project Cost</b>	<b>Project Cost Per Unit</b>	<b>City Subsidy Cost</b>	<b>City Subsidy Per Unit</b>
Franklin Street Apartments	4 one-bedroom units 32 two-bedroom units 15 three-bedroom units	\$23,849,641	\$467,640	\$12,547,000	\$246,000
819 North Rengstorff Avenue	48 workforce studios 1 one-bedroom manager unit	\$17,396,762	\$355,035	\$9,000,000	\$183,673
1585 Studios Project	26 studios 1 one-bedroom manager unit	\$10,468,465	\$387,721	\$4,652,000	\$172,296
ROEM NOFA 779 East Evelyn Avenue	7 studios 39 one-bedroom units 36 two-bedroom units 33 three-bedroom units 1 manager unit	\$56,900,000	\$490,517	\$21,500,000	\$185,345
PAH NOFA 1701 West El Camino Real	59 studios 1 one-bedroom manager unit	\$32,142,750	\$535,712	\$5,800,000	\$96,666

**Project Financing and City Subsidy**

Veterans Housing and Homeless Prevention Program

Affordable housing developments tend to have complicated, multi-layered approaches to financing and this development is no exception. PAH is proposing to compete for the State’s Veterans Housing and Homeless Prevention (VHHP) Program funding for the 30 units reserved for veterans. 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 allocated \$62 million from its first VHHP NOFA and will be releasing a second NOFA in the fall. PAH will apply for nearly \$4.4 million in VHHP funding.

### Veterans Affairs Supporting Housing Program

In addition to VHHP loans, the project would apply for 30 project-based vouchers from the Department of Housing and Urban Development (HUD) – Veterans Affairs Supportive Housing (VASH) Program. These are HUD Section 8 vouchers which are specifically set aside for veterans. The HUD-VASH Program is a rental subsidy program where the tenant pays 30 percent of their income toward the rent and HUD pays the remainder directly to the property owner. Although the vouchers have no monetary value in the funding sources column, they do increase the competitiveness of the development in securing VHHP and tax credit funding. The vouchers also enhance the long-term financial stability of the project. Both the VHHP funding and the HUD-VASH vouchers are essential for PAH to successfully compete for 9 percent tax credits.

### Low-Income Housing Tax Credit Program

PAH will also compete for the Low-Income Housing Tax Credit (LIHTC) Program 9 percent tax credits which will add nearly \$16.6 million in capital from the tax credit investors. Securing 9 percent tax credits is challenging since there are only two application periods per year in March and early July and there are limits to the number of projects funded in each region. The 9 percent tax credit applications are evaluated on a point system based on how well the project meets certain criteria, such as affordability levels and local contribution. Since most projects competing for 9 percent tax credits will score the maximum 148 points, there is a tie-breaker score. Local funding plays a large role in the calculation of the tie-breaker score. The larger local contribution to the project translates into a higher tie-breaker score. Projects with the highest tie-breaker scores will receive the tax credit allocation. Securing a 9 percent tax credit allocation is a highly competitive process and typically only two projects from our region are funded in each application period.

With ROEM's 819 North Rengstorff Avenue studios project, the Council provided additional funding to increase the tie-breaker score and the developer was successful in receiving 9 percent tax credits with their first application. It was helpful with the ROEM project to have some flexibility with the maximum amount of City funding in order to respond effectively to competing tax credit applications. This approach could also be used for the PAH project. The NOFA Review Committee discussed adding a contingency of \$1.2 million to be more competitive for the 9 percent tax credits based on the staff recommendation. After further review, staff would now recommend funding up to an additional \$2.2 million (or \$8 million total) to allow the project to be more competitive for the 9 percent tax credits.

Gauging an appropriate tie-breaker score is difficult since it heavily depends on which other affordable projects in the region are competing for funding and their tie-breaker scores. Information about competing projects is not readily available because this information is guarded and sometimes not included in published agendas and Council reports. The highest tie-breaker scores for our region have varied substantially in the past few years. There appears to be a general trend of lower tie-breaker scores since the dissolution of redevelopment agencies and loss of Housing Set-Aside funding. PAH and its financial consultant, California Housing Partnership Corporation (CHPC), believe that with a tie-breaker score of 66 percent they can have a relatively strong and competitive 9 percent tax credit application.

Since the 9 percent tax credit cycle is limited and very competitive, most developers will apply for one to two rounds of the 9 percent tax credits and if they do not receive an allocation, they will then apply for the noncompetitive 4 percent tax credits. The 4 percent tax credits are typically combined with tax-exempt bonds. The State accepts 4 percent applications about six times per year and the 4 percent tax credits are guaranteed as long as the program requirements are met. The 4 percent tax credit program results in less investor equity being contributed to the project and thus a larger financing gap.

Table 2 shows all the funding sources and amounts for both the 9 percent and 4 percent tax credit options. With several recent subsidized developments, the gap created by the 4 percent tax credit scenario was relatively small and the Council opted to support a more expedient and less competitive 4 percent tax credit application. The 4 percent tax credit application is not a cost-effective option for this project. With the 4 percent tax credits, there is a funding gap of nearly \$7 million. If City funds were used to fill that gap, it would result in a total City subsidy of \$12.87 million. As shown in Table 2, this is a significantly higher contribution than the minimum \$5.8 million or additional \$2.2 million maximum needed for the 9 percent tax credits.

**Table 2. Comparison of 9 Percent and 4 Percent Tax Credit Scenarios**

PERMANENT SOURCES	9% TAX CREDIT AMOUNT	4% TAX CREDIT AMOUNT
Tax Credit Investor Capital	\$16,717,020	\$8,807,110
City of Mountain View – NOFA	\$5,800,000	\$12,871,331
VHHP Program Loan	\$4,365,660	\$3,780,000
Permanent Loan	\$1,478,000	\$2,978,000
Deferred Interest and Fee Waivers	\$3,871,833	\$3,983,796
<b>TOTAL</b>	<b>\$32,232,513</b>	<b>\$33,298,672</b>



## **Target Population and Income Levels**

PAH has proposed that one-quarter of the 60 studio units be set aside as supportive veterans housing units, an additional one-quarter of the units will be targeted to veterans, and the remaining 30 units would be available to anyone whose income qualifies. Supportive housing is a model that has been proven effective by combining permanent housing with a wide variety of on-site social services that allow residents to establish stability. Both the VHHP and HUD-VASH programs require intensive support services and case management on-site for the supportive units.

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

The VHHP funding source also requires the development to target income levels at 60 percent AMI or less. The current proposal has 26 studio units serving extremely low-income tenants at 30 percent AMI or less and 33 studio units reserved for very low-income households at 60 percent AMI or less and one manager unit.

## **Funding Considerations**

On December 16, 2014, in addition to reserving \$21.5 million for ROEM's 779 East Evelyn development, the City Council authorized staff to continue working on the two additional NOFA applications received – PAH's West El Camino Real proposal and MidPen Housing's Shorebreeze addition, despite the funding not being immediately available. The concept was that by the time the funding was needed for the two new proposals, it would be available based on conservative estimates of revenues from housing fees. Some funds would be appropriated for predevelopment expenses with the reservation of funding for this project, but the bulk of the City funding would be appropriated with entitlement approvals, expected to be about nine months after a reservation of funding. Currently, after reservation of \$21.5 million for the ROEM project, a balance of about \$13.6 million in housing funds is available for the PAH and Shorebreeze developments. During the past three years of strong development activity, the affordable housing revenue has been around \$7 million to \$10 million per year. If development activity continues at the current pace, a conservative estimate would be the City receiving \$7 million in affordable housing fees per year.

## **NEIGHBORHOOD MEETING INPUT**

A neighborhood meeting was held on September 22, 2015 at the Mountain View Senior Center and was attended by 15 neighbors and interested parties (meeting notes are provided under Attachment 4). Most of the attendees were supportive of the development concept with a few concerned about traffic impacts on El Camino Real and whether the size of the units were adequate for the veterans. The attendees were reassured that traffic impacts are studied during the design review phase and that the needs of the residents would be taken into consideration when designing the units. Several veterans attended the meeting as well to express their support for the project and urge the City to waive the City preferences for the 30 veteran units. City staff and PAH explained that veterans from other cities could apply for the units. If PAH did not receive enough applications from veterans living and working in Mountain View, then veterans from other communities could apply for units. Overall, feedback for the proposed development was positive.

## **FISCAL IMPACT**

There is no fiscal impact to the General Fund. The City Council is being asked to reserve \$8,000,000 in local housing funds for the NOFA proposal and appropriate \$1,021,610 from these reserved funds for predevelopment expenses during the development and design review phase. The funding would be provided in the form of a deferred low-interest loan. The loan payments would begin once the development begins producing excess revenue. If the project is not approved, the funds will become available for other NOFA applicants or other affordable housing programs.

## **Next Steps**

Should the City Council choose to recommend a funding reservation for the NOFA proposal, the following are the next steps:

1. Developer will submit an application to the Planning Division to proceed with the design review process.
2. A parking study will be prepared to determine an appropriate parking rate for the proposed development and a Council hearing will be held on the proposed parking ratio.

3. Neighborhood meetings will be held to include neighborhood input in the design.
4. Public hearings on the project will occur.

### **CONCLUSION**

PAH has submitted a NOFA application requesting \$5.8 million to develop 60 units of affordable housing at 1701 West El Camino Real. On September 2015, the NOFA Review Committee met to review the request and the Committee has forwarded the request for a reservation of funding to the City Council with a recommendation that the City Council reserve an additional funding to make the project more competitive for tax credit funding. Staff recommends an additional amount of up to \$2.2 million maximum as a contingency.

### **ALTERNATIVES**

1. Choose not to reserve funding for this proposal.
2. Provide direction on preferred changes to the project.
3. Provide other direction.

## **PUBLIC NOTICING**

The meeting agenda and Council report have been posted on the City’s website and announced on Channel 26 cable television. Notices have been sent to all property owners and tenants within a one-quarter-mile radius of the site, affordable housing advocates, and other interested parties.

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- Attachments:
1. Revised NOFA Application from PAH
  2. City of Mountain View Affordable Housing NOFA
  3. Analysis of PAH’s Proposal in Context of NOFA Goals and Priorities
  4. Neighborhood Meeting Notes
  5. HUD Income Limits for Santa Clara County