



**DATE:** May 15 2018

**CATEGORY:** New Business

**DEPT.:** Community Development

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

### **RECOMMENDATION**

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

1. Reserve \$22,772,844 in Below-Market-Rate funds for the Palo Alto Housing Notice of Funding Availability application and provide direction to staff on use of Prometheus Real Estate Group's prefunding of its Below-Market-Rate obligations for future projects as the funding source for this project.

In addition, staff recommends the City Council:

1. Appropriate \$1,400,000 in Below-Market-Rate funds to predevelopment costs and authorize the City Manager to enter into an agreement with Palo Alto Housing for the use of the predevelopment funds. (Five votes required)
2. Appropriate an additional \$300,000 in Below-Market-Rate funds for staff time, environmental, parking, and other special studies for this project. (Five votes required)
3. Rebudget the unspent and unencumbered balance of the above \$1,700,000 appropriation to Fiscal Year 2018-19. (Five votes required)

### **BACKGROUND**

In February 2014, the City of Mountain View released a Notice of Funding Availability Review (NOFA) for new affordable housing developments. These funds were made available on a first-come, first-served basis. In this NOFA cycle, the City Council has appropriated \$21.7 million for ROEM Corporation's 116-unit affordable development at 779 East Evelyn Avenue, \$8 million for 67 studio units in Palo Alto Housing's (PAH)

1701 West El Camino Real development and, most recently, \$7.32 million for MidPen Housing's 62-unit Shorebreeze expansion project. At Council's direction, staff continues to accept NOFA applications over the counter on a first-come, first-served basis to expedite affordable housing development.

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 Clark and Showalter and Mayor Siegel chairs the Committee. The NOFA Review Committee reviews all NOFA funding applications and determines whether the proposals should move forward to the full Council for consideration.

On April 19, the NOFA Review Committee met to review the PAH NOFA proposal for a 71-unit affordable apartment project at 950 West El Camino Real (Attachment 1). The Committee discussed two 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 under Scenario Two (both funding scenarios are discussed in detail below).

The Committee commented on one of two project design issues identified by staff. Specifically, the Committee supported the recommendation regarding a streamlined process for review of the proposed parking ratio, wherein Council would review the project parking as part of the final project action rather than at an earlier Study Session. Instead, a parking study would be conducted and reviewed by staff to determine the necessary parking for the project, and staff would then work with the applicant to make modifications to the project design, project components (such as a TDM program),

and/or target population as needed. The Committee did not provide any comments on the project architecture/design.

## **NOFA Proposal**

### Project Description

PAH is proposing a five-story, 71-unit development with 70 units affordable to households with incomes at or below 60 percent Area Median Income (AMI) and a two-bedroom manager unit. On-site amenities will include a community room with kitchen, lounges, a music room, a quiet room, and laundry facilities. A preliminary site plan and architectural drawing are included in Attachment 2.

PAH submitted two funding scenarios for the development; in both scenarios, the manager's unit is not considered an affordable unit as it is not regulated under the tax credit program or the City's regulatory agreements. In Scenario One, PAH would request \$11,775,850 of both Santa Clara County Measure A funding and Mountain View Affordable Housing NOFA funding. The target population would be 20 Transitional-Age Youth (TAY) units, 15 Developmental Disabilities (DD) units, and 35 units available to the general population. Twenty (20) of the studios would target households at or below 30 percent AMI, while the remaining 50 units would be affordable to households at or below 60 percent AMI.

PAH has submitted an application to the County of Santa Clara Office of Supportive Housing, but the feedback they have received is that the proposed DD units would not count toward the 50 percent Permanent Supportive Housing (PSH) threshold for Measure A funding. In the Measure A NOFA, PSH programs are defined as "a type of housing program that provides permanent affordable housing and supportive services to individuals (and their families) who have disabling conditions. PSH programs are typically prioritized for chronically homeless persons and families or other populations with significant health needs." PAH is not comfortable changing the population to 50 percent TAY or 50 percent chronically homeless at this stage in the process. As a result, PAH has been seeking additional and creative funding sources.

Scenario Two would fund the development with funds from the Prometheus Real Estate Group (Prometheus) to meet Prometheus' Below-Market-Rate (BMR) obligation for future projects such as at 525, 555, and 769 East Evelyn Avenue, among others. In this scenario, all of the units would be available to mostly general population with 25 percent of the total being DD units. AMI targets would be: 10 studios at or below 40 percent AMI; 10 studios at or below 50 percent AMI; 48 studios at or below 60 percent AMI, and 2 one-bedroom units at or below 60 percent AMI.

This scenario requires City Council approval of Prometheus prefunding off-site development of its affordable housing obligation. Prometheus and PAH would agree on the dollar amount to be contributed toward the construction of the affordable units at PAH's 950 West El Camino Real site as an alternative to Prometheus providing the required BMR housing units. The City's BMR Ordinance allows developers to propose an alternate mitigation in lieu of the construction of the units. In this scenario, the City of Mountain View would not formally commit any existing NOFA funds to the project; instead, the funding would be provided by Prometheus in the form of an advance on its BMR requirement. Prometheus has proposed that the number of units funded at the 950 West El Camino Real site become "BMR unit credits" which can then be applied to Prometheus projects moving forward, including, but not limited to, the Flower Mart site on East Evelyn Avenue. The funding/credit system would be independent of project entitlement approvals and would not commit the City to entitling the Prometheus project. As with the City's affordable housing funds, this commitment would be provided to PAH in the form of a City loan which would be recorded against the property along with regulatory agreements restricting the terms of affordability. Details on the prefunding of the "BMR credits" would need to be agreed upon and approved by City Council before PAH's development is entitled. The City Council approved a similar alternative proposed by LinkedIn last year and expressed interest in Prometheus' proposal for prefunding its BMR requirement at the study session held on December 5, 2017 for Prometheus' Villa Street project. In 2017, LinkedIn received approval from the City Council to invest \$10 million in the Housing Trust's Tech Fund. The \$10 million was later loaned to Eden Housing and Palo Alto Housing for the acquisition of land in Mountain View.

### Site Location

The 0.61-acre (26,531 net square feet) site is the current home to a Taco Bell located at 950 West El Camino Real, between Castro Street and Oak Street, and is in the El Camino Real Precise Plan area, Castro/Miramonte Subarea

1. Transportation is easily accessible from the site with six Valley Transportation Agency (VTA) bus routes within a one-half-mile radius. Bus Lines 22, 52, 522, and 81 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 one mile to the Mountain View Transit Center to access light rail or Caltrain service.

The property is adjacent to one-story retail-office development to the east, a two-story apartment complex to the north, and a two-story America’s Best Value Inn to the west. PAH’s Eagle Park studio development for veterans is located just west of this site.

### Project Design

The proposal includes 71 units, including one two-bedroom manager’s unit, two one-bedroom units, and 68 studio units distributed across five residential floors. The five-story building is located 10’ to 15’ from the expanded public sidewalk on West El Camino Real. The main pedestrian entry is directly accessible from both the public sidewalk and a rear parking area. The front setback area includes walkways, a small entry plaza, utilities, and both in-ground and terraced planter landscaping. In addition to the manager’s unit, ground-floor uses are predominantly common amenity areas and building service offices.

The proposed project parking includes 28 parking spaces plus 5 motorcycle stalls in a surface lot tucked behind the building, at the rear of the property. The landscaped parking lot provides required setback to the residential property to the north and is accessible via an at-grade driveway tucked under the upper floors of the building. The project includes: interior services and amenities on every floor; secure bicycle parking for 71 bicycles, which meets the standard of one secure bike parking space per unit; and a variety of outdoor terraces, including rooftop access and deck amenities.





## Density Bonus

The project includes a State Density Bonus request. 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, and/or waivers or reductions of development standards in exchange for the construction of affordable or senior housing units. The Density Bonus Law provides a sliding scale for bonus density (up to a maximum increase of 35 percent), based upon the percentage of units set aside within a development for seniors, low-, very low-, or moderate-income households.

Because the proposal is a 100 percent affordable project, it is eligible for the maximum 35 percent density bonus; the development proposes an approximately 7.5 percent bonus, which is applied to the maximum allowed floor area ratio (FAR) for the site, since the Precise Plan regulates development based on FAR (intensity) versus density.

Density bonus projects may 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 applicant is requesting five concessions and/or reductions or waivers of development standards, including:

1. *Building height:* Five stories/55.5' proposed, four stories/55' allowed;
2. *Upper-story side setback:* 0' to 5' proposed, minimum 5' required;
3. *Maximum pavement coverage:* 38 percent proposed; 20 percent maximum allowed;
4. *Open area:* 33 percent proposed, 40 percent required;
5. *Common open space:* 136 square feet per unit proposed, 150 square feet per unit required; and

The applicant has indicated the proposed development maximizes the building footprint and size, as well as space necessary for surface parking. Compliance with the above standards could inhibit construction of the Density Bonus project (size) and/or substantially increase construction costs to provide underground parking (per below).

The project also includes 5' to 15' in additional height for rooftop amenities, which include building parapets, stair/elevator access, photovoltaic canopies, covered deck areas, and a special architectural roof form in the southwest building corner. Up to 10' in additional height can be allowed through a standard exception process, as identified in the Precise Plan. The applicant will need to work with staff through the development

review process to reduce the height of the taller feature, or request an additional design exception as part of the Planned Community Permit. The project will also require a Provisional Use Permit to allow residential accessory uses on the ground floor because the Precise Plan otherwise requires ground-floor commercial uses along the entire building frontage facing El Camino Real.

### Parking

The Density Bonus Law includes a parking standard specifically for transit-oriented affordable developments such as this, which allows a parking ratio of 0.5 space per bedroom. However, the proposed parking ratio of approximately 0.39 space per unit (28 spaces for 71 units, excluding five motorcycle spaces) is lower than the State Density Bonus Law requirements, adopted City standards, and other recently approved affordable developments in Mountain View, including:

- At 1701 West El Camino Real, a 64-unit development providing housing primarily for military veterans, a parking demand analysis provided parking demands from three similar projects, and found that a ratio of 0.45 space per unit would be adequate to meet the project parking demand based on the target population, number/type of units, access to nearby transit, and TDM program.
- At San Antonio Place, a 2012 parking survey found that the actual parking demand was 0.43 space per unit, for an efficiency studio development located close to high-frequency transit services, shopping, and jobs. This project location and scope is similar to these two relatively recent affordable housing projects, but the proposed parking ratio is lower.
- At 1581-1585 West El Camino Real, a 27-unit (including manager's unit) studio development for developmentally disabled residents was approved with a parking ratio of approximately 0.37 space per unit, with parking spaces provided primarily for visitors and staff providing services to residents.

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, cost, and feasibility. If the Council decides to reserve funding for this project, the development and environmental review processes would begin. As part of the development review process, a parking study analyzing parking demand will be prepared early in the entitlement process.

Staff is concerned that the 0.39 space per unit ratio may not be adequate if the project varies significantly from the target population described for Scenario 1. At this point, PAH has indicated Scenario 2 would have a target population that includes at least 25

percent of the units for developmentally disabled residents. The parking demand study will help verify if the proposed target population’s percentage of nondriving residents, and/or other project components (such as a TDM program) are adequate to support the proposed parking ratio. PAH has also indicated that there may be very limited opportunities to increase the number of parking spaces on the site; however, any proposed alternative parking design option will require detailed review. Changing the design to include underground parking would substantially affect project costs.

If PAH continues to work with staff to modify the target population and/or other project components, staff recommends utilizing a streamlined review process wherein the parking study would not be brought back to City Council at a mid-review Study Session. The parking would instead be reviewed by staff, and considered by Council as part of the final project action.

### Architecture and Design

The proposed building uses a contemporary design style, but departs from many of the common materials and architectural features from other recent contemporary residential designs in Mountain View. The building is split into three main segments, as viewed from El Camino Real:

- A glassy five-story central element, with a distinctive window mullion and colored glass panel pattern, highlights the building entry and transitions between the left and right building masses;



- A five-story vertical element comprises the left side of the building, with an unusual “V” in the roof form and a varied window pattern adding interest. A



panelized mural system on the vertical element or similar building-integrated art installation is being studied for this area or this area or the decks to the right of the entry; and



- The right-hand building area has a more horizontal layout, and is clad in a mix of solid standing seam metal siding and perforated metal siding at the common decks to the right of the entry. The first and fifth floors have additional setback, and metal sunshades are also used to break up the massing and shade south-facing windows.

The overall design features a simple, contemporary building massing, with strategic accents as discussed above. In addition, the design prioritizes retaining the rear setback to adjacent residential uses, and minimizing building height, which results in minimal side setbacks with limited articulation on those walls.

The applicant submitted an informal application to gain early feedback from City departments. Staff has shared recent residential design feedback by Councilmembers and the community and indicated that additional design feedback may be gained through the NOFA process. If the project receives funding, the applicant will submit a formal application to the City, and the project will receive thorough design review by staff and the Development Review Committee. Staff would continue to work with the applicant on ways to improve articulation on the front and rear elevations through projections and/or recesses; enhance the appearance of side elevations; refine roof

forms, materials, and accent features; and implement any direction provided by the NOFA Committee and City Council.

### Entitlement Requirements

The site is in Castro/Miramonte Subarea 1 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 1.85 FAR and four stories/55'.

The development, including the State Density Bonus request, will require a Planned Community Permit and Development Review Permit, as well as a Provisional Use Permit for rooftop amenities about the third floor. Depending on the outcome of the development review process, the Planning Community Permit request may include some proposed design exceptions (as allowed under the Precise Plan) in addition to requests for waiver/reduction of development standards under the Density Bonus process.

### Developer Site Control

PAH entered into a purchase agreement on the site on August 22, 2017 and closed escrow on the property on October 25, 2017. The total cost for the 0.61-acre parcel is \$8,088,000. 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. 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.

### NOFA Evaluation

The NOFA application (Attachment 3) identifies 12 project goals and two housing priorities that should be used to evaluate the proposals. Attachment 4 contains the discussion of how the project meets each of these goals and priorities. The proposal submitted by the 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 PAH proposal. PAH's development costs are driven by high land costs and a sharp rise in construction costs.

**Table 1: 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
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	\$3,616,500 (BMR and HOME Funds)	\$133,946
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	\$8,000,000	\$119,403
Shorebreeze Expansion Project	21 studios 20 one-bedroom units 8 two-bedroom units 12 three-bedroom units <u>1 one-bedroom manager unit</u> <b>62 units total</b>	\$37,715,299	\$608,311	\$7,902,691 (Housing Impact, HOME and CDBG)	\$127,463
Scenario One PAH Project 950 West El Camino Real	68 studios 2 one-bedroom units <u>1 two-bedroom manager unit</u> <b>71 units total</b>	\$41,309,030	\$581,817	\$11,755,850	\$165,575
Scenario Two PAH Project 950 West El Camino Real	68 studios 2 one-bedroom units <u>1 two-bedroom manager unit</u> <b>71 units total</b>	\$40,854,657	\$575,418	\$22,772,844	\$320,744

## Project Financing and City Subsidy

### Low-Income Housing Tax Credit Program

Under both funding scenarios, PAH plans on applying for the Low-Income Housing Tax Credit (LIHTC) Program 4 percent tax credits which will add nearly \$12.3 million in capital from the tax credit investors. The 4 percent tax credit program is non-competitive, with several application cycles per year. Early in the NOFA application process, PAH evaluated both the 9 percent tax credits and the 4 percent tax credits and decided that the 4 percent tax credits would allow more flexibility and would not add significant cost to the project budget. Table 2 below shows the funding sources for both scenarios with the 4 percent tax credits.

**Table 2: Funding Sources**

PERMANENT SOURCES	SCENARIO ONE	SCENARIO TWO
Tax Credit Equity	\$12,260,623	\$12,270,938
City of Mountain View – NOFA	11,755,850	22,772,844 <sup>1</sup>
County of Santa Clara Measure A	11,755,850	0
Bank Loan	3,335,909	3,888,743
General Partner Contribution	1,453,762	1,468,762
Accrued/Deferred Interest	747,672	453,371
TOTAL	\$41,309,666	\$40,854,658

<sup>1</sup> Prometheus Prefunding of BMR Fees

### Funding Considerations

On December 16, 2014, the City Council authorized staff to continue working on NOFA applications despite the funding not being immediately available. The concept was that by the time the funding was needed for 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 in about 12 months.

Currently, the City has a balance of approximately \$31 million in housing funds available. In addition to this proposal, staff has received NOFA funding requests for three additional developments and is considering purchasing property for affordable

housing. The total funding necessary to fully fund all five proposals would be approximately \$70 million over the next four years. Current revenue projections show that, under the current economy, sufficient funding would be available when the projects enter the construction phase, approximately 18 to 24 months after receiving the funding reservation from the City Council.

## **NEIGHBORHOOD MEETING INPUT**

The first neighborhood meeting is planned for May 9, 2018 at Mariano Castro Elementary School. Input from attendees will be taken into consideration during the entitlement process. As customary, meeting notes from all community meetings will be presented to the City Council in the entitlement hearing staff report.

## **FISCAL IMPACT**

Scenario Two would greatly offset the City's use of existing affordable housing funds and allow the City to continue to leverage its resources. In most cases, staff would not recommend such a high City subsidy for less than 100 units of affordable housing. In addition, the City subsidy per unit in Scenario Two is significantly higher than any other affordable housing development the City has funded. However, since Prometheus has negotiated with PAH to prefund its BMR obligation by providing the subsidy for the construction of the 71 units, staff and the NOFA Review Committee were comfortable recommending that the reservation for funding proceed to City Council.

There is no fiscal impact to the General Fund. The City Council is being asked to reserve \$22,772,844 in BMR funds for the NOFA proposal and appropriate \$1,700,000 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.

## **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. An agreement between Prometheus, Palo Alto Housing, and the City will be entered into prior to the deposit of the funds with the City.
3. A parking study will be prepared to determine an appropriate parking rate for the proposed development and the recommended parking ratio will be brought back to the City Council with the entitlements and final loan appropriation.
4. Neighborhood meetings will continue to be held to include neighborhood input in the design.
5. Public hearings on the project will occur.

### **CONCLUSION**

PAH has submitted a NOFA application to develop 71 units of affordable housing at 950 West El Camino Real. On April 19, 2018, 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 \$22,772,844 in BMR funds. The source of the funding would be from Prometheus Real Estate Group's prefunding of its BMR obligation for future projects if supported by Council.

### **ALTERNATIVES**

1. Direct staff not to pursue the Prometheus prefunding of its BMR obligation and fund the project from the existing \$31 million in affordable housing funds.
2. Choose not to reserve funding for this proposal.
3. Provide direction on preferred changes to the project design or funding.
4. 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.

Prepared by:

Vera Gil  
Project Manager – Affordable Housing

Rebecca Shapiro  
Deputy Zoning Administrator

Wayne Chen  
Assistant Community Development  
Director

Approved by:

Randal Tsuda  
Community Development Director

Daniel H. Rich  
City Manager

VG-RS-WC/4/CAM  
894-05-15-18CR-E

- Attachments:
1. Revised NOFA Application from PAH
  2. Plan Set
  3. City of Mountain View Affordable Housing NOFA
  4. Analysis of PAH’s Proposal in Context of NOFA Goals and Priorities