



# COUNCIL REPORT

**DATE:** March 14, 2023

**CATEGORY:** Consent

**DEPT.:** Community Development

**TITLE:** **Lot 12 Affordable Housing Project  
Funding Appropriation and Loan  
Agreement**

## **RECOMMENDATION**

1. Appropriate the remaining \$10.95 million in City funding for the Lot 12 affordable housing project, which is composed of \$1.0 million in Successor Agency funds, \$1.95 million in Housing Impact Fees, and \$8.0 million in Senate Bill 129 Affordable Housing Grant Fund, which will be used for the construction/permanent loan. (Five votes required)
2. Authorize the City Manager or designee to negotiate the terms and execute the construction/permanent loan agreement with MV Lot 12 Housing Partners, L.P., in an amount up to \$12.25 million; amendments to the agreements, subject to Council appropriation of funds; and related documents necessary for City financing for the development.

## **BACKGROUND**

In 2019, the City initiated a two-step process for the redevelopment of the 1.4-acre Lot 12 site, currently a City-owned, 160-space public parking lot bounded by Mercy, Bryant, and California Streets, one block north of City Hall, into a residential mixed-use project that includes affordable housing units and commercial space. The first step began with a Request for Qualifications (RFQ) with a response period from May 15, 2019 to August 1, 2019 and followed by a Request for Proposals (RFP) process with a response period from December 16, 2019 to March 2, 2020.

On May 19, 2020, the City Council selected the joint developer team of Related and Alta Housing as the preferred developer (Developer). (Note that the Developer later formed a limited partnership called MV Lot 12 Housing Partners, as is standard practice in affordable housing projects to form such limited partnerships). Subsequently, the City and Developer entered into negotiations regarding key project deal terms, including the amount of City funding.

On April 13, 2021, Council appropriated \$1.3 million from the Below-Market-Rate Housing Fund for Lot 12 predevelopment costs (see Attachment 1 to this Council report). This is the City's standard amount to fund necessary predevelopment activities for affordable housing projects.

At the time of the April 2021 Council meeting, the City and Developer were still in active negotiations regarding key project deal terms. However, the report noted that the \$1.3 million predevelopment loan amount will not change and will be included in the total City subsidy amount once the key deal terms are finalized.

On August 24, 2021, Council held a Study Session to discuss project design and key deal terms and authorized the City Manager or designee to execute a Lease Disposition, Development, and Loan Agreement (LDDLA) with Alta Housing and Related Management Company consistent with the approved deal terms. The Council discussion included the staff recommendation for \$4.25 million in City funding, with a portion of the funding from the General Fund to support the nonresidential/commercial uses of the mixed-use project. Additionally, under the leadership of Senator Josh Becker, \$8.0 million from the State's General Fund had been appropriated to the City through Senate Bill (SB) 129 (the State Budget Act of 2021). Ultimately, Council supported \$4.25 million in City funds for the affordable housing portion of the mixed-used project (no City funding for the nonresidential/commercial uses) and for the LDDLA to include a provision that includes the \$8.0 million in SB 129 funding once it is received by the City, for a total City contribution of \$12.25 million to the project. This total includes the \$1.3 million in predevelopment costs previously approved by Council.

In January 2022, the LDDLA was executed between the City and Developer (i.e., MV Lot 12 Housing Partners, L.P.). The LDDLA includes a section on City financial assistance, which stipulates that the City will provide \$12.25 million in funding toward the project.

In February 2022, the Developer submitted the formal planning application for a streamlined approval process as allowed by SB 35. The SB 35 projects are approved ministerially by staff and do not go to Council for approval.

In April 2022, the City ministerially approved the project.

## **ANALYSIS**

The \$12.25 million in City funding includes the following amount:

- \$4.25 million (various City funds)
  - \$1.3 million in Below-Market-Rate Housing Fund (already appropriated in April 2021);
  - \$1.0 million in City's Successor Agency Fund; and
  - \$1.95 million in Housing Impact Fees.
  
- \$8.0 million (SB 129 Affordable Housing Grant fund)

As noted, \$1.3 million of City funding has been appropriated already for predevelopment costs and will be converted into the construction/permanent loan for the project. This leaves \$10.95 million in City funding that must still be appropriated for Lot 12 to be used for the project's construction/permanent loan. In past projects, funding appropriation would be made at the same time as Council's consideration of project approval. Because Lot 12 was approved ministerially through the SB 35 process, the project did not return to Council for approval. As a result, this item is required to appropriate the remaining City funds for the project.

### **Next Steps**

The project is currently going through the building permit approval process, and the development team is securing final external funding sources, including project-based vouchers from the Santa Clara County Housing Authority as well as Federal tax credits. It is expected that the building permit and funding process will be complete by Q1 2024. At that time, the City will work with the Developer and funding partners to complete the loan closing process, which will make the funds available for the project construction to start (which is estimated to be in Q2 2024).

### **ENVIRONMENTAL REVIEW**

The Lot 12 affordable housing project was ministerially approved pursuant to SB 35. SB 35 projects are statutorily exempt from environmental review under the California Environmental Quality Act.

### **FISCAL IMPACT**

Appropriating the remaining \$10.95 million for the Lot 12 project has no fiscal impact on the City's General Fund. The City currently has an available balance of approximately \$21.3 million in affordable housing funds that have not been reserved or encumbered to a project. City funding has already been set aside by staff for Lot 12; therefore, there are sufficient City housing funds for Lot 12, and Council appropriation of the remaining funds will not change the fund balance.

### **ALTERNATIVES**

1. Do not appropriate the remaining \$10.95 million in City funding for the Lot 12 project.
2. Provide other direction.

**PUBLIC NOTICING**—Agenda posting.

Prepared by:

Wayne Chen  
Assistant Community Development Director

Approved by:

Audrey Seymour Ramberg  
Assistant City Manager

WC/1/CAM  
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Attachment: 1. Lot 12—Appropriation of Predevelopment Funding