



**DATE:** June 22, 2021

**CATEGORY:** New Business

**DEPT.:** Community Development

**TITLE:** **Charities Housing Notice of Funding Availability Proposal – 1265 Montecito Avenue**

### **RECOMMENDATION**

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

1. Reserve \$18,000,000 in Housing Impact funds for the Charities Housing Notice of Funding Availability application.

Staff recommends, from this \$18,000,000 reservation, that the City Council:

1. Direct staff to include in the Recommended Budget \$1,300,000 in Housing Impact funds for predevelopment costs (\$1,000,000 for Charities Housing and \$300,000 for staff time, environmental, parking, and other special studies for this project).
2. Authorize the City Manager to enter into an agreement with Charities Housing in the amount of \$1,000,000 for the use of the predevelopment funds.

### **BACKGROUND**

In February 2014, the City of Mountain View released a Notice of Funding Availability (NOFA) for new, affordable housing developments. These funds were made available on a first-come, first-served, ongoing basis, otherwise known as an “over-the-counter” NOFA program. Since that time, the City has provided approximately \$88 million in funding (not including this \$18 million request for the Montecito Avenue project) to facilitate the development of nearly 500 units of affordable housing (see Table 1 below).

The purpose of this item is for the City Council to consider the NOFA proposal from Charities Housing and 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 to 12 months. The final funding commitment will only occur after formal project review and final approval by the City Council.

## **ANALYSIS**

### **NOFA Review Committee**

The NOFA Review Committee is comprised of Committee members Hicks, Showalter, and Committee Chair Ramirez. 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 June 7, 2021, the NOFA Review Committee met to review the Charities Housing NOFA proposal for an 85-unit affordable apartment project at 1265 Montecito Avenue (Attachment 1 to the Council report). The NOFA Review Committee discussed project costs, property acquisition, sources of financing, and the target population for the development. The NOFA Review Committee voted unanimously to move the project forward to Council for a reservation of funding.

### **NOFA Proposal**

#### *Project Description*

The approximately 1.04-acre project site is located at the corner of Montecito Avenue and North Shoreline Boulevard and is currently developed with a two-story office building that would be demolished for the project. Directly north of the site is the Bailey Park Plaza Shopping Center, and to the south is the Shorebreeze Apartments, an affordable housing development. To the west are two-story multi-family residential uses, and to the east is a self-serve car wash. The site is within one-half mile of the Mountain View Transit Center via Stierlin Road and just one-tenth mile from Valley Transportation Authority (VTA) Bus Line 40. This bus line serves the Mountain View Transit Center and Foothill College.

A portion of the project frontage along North Shoreline Boulevard is within the boundary of a capital improvement project to add upgraded on-street bike lanes. This project will not impact those improvements but may assist the developer in securing Affordable Housing and Sustainable Communities (AHSC) funding. AHSC funding is a competitive funding source that funds land use, housing, and transportation projects that reduce greenhouse gas emissions.

### *General Plan and Zoning*

The project site has a current General Plan Land Use Designation of Neighborhood Commercial, which allows commercial uses but does not permit residential uses. Accordingly, the current zoning designation is Commercial Neighborhood, which allows for a mix of neighborhood-serving commercial uses but does not permit stand-alone residential uses. To facilitate the proposed affordable residential development, the project requires a request for a General Plan Map Amendment and a Zoning Map Amendment to R4 (High-Density, Multi-Family Residential) District. These amendments would allow consideration of high-density, multi-family housing close to transit, shopping, and public facilities with a density of up to 80 units per acre.

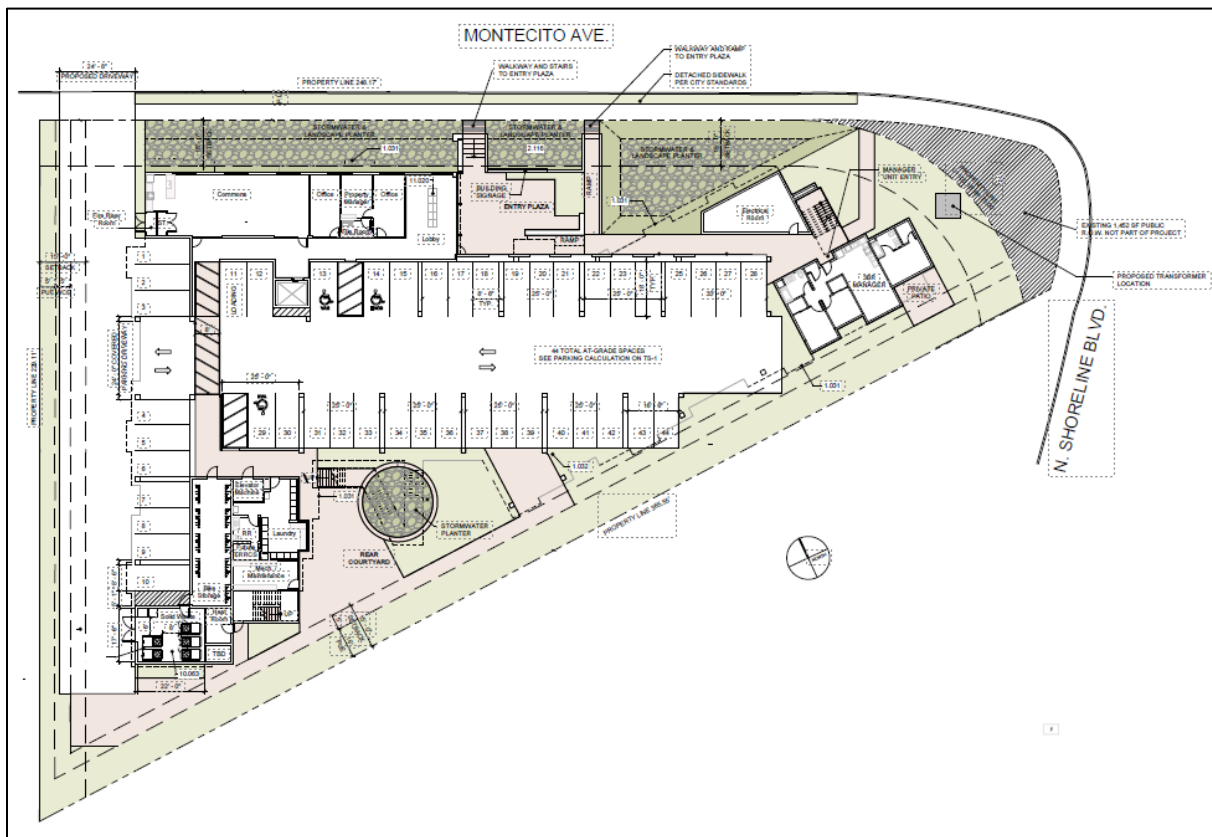


**Figure 1: Project Site Location**

### *Project Overview*

As seen in the development plan set (Attachment 2 to the Council report), the applicant, Charities Housing, is proposing a five-story, 85-unit development with 84 affordable units for households with incomes at or below 60% area median income (AMI) and a three-bedroom manager's unit. The project also includes a 1% density bonus, allowing one additional unit beyond the base density of 84 dwelling units allowed under the proposed R4 zoning. The density bonus includes a development standard waiver to provide no personal storage, which is required at 80 square feet or 164 cubic feet per unit in the R4 Zoning District.

The unit mix includes 24 studio units, 18 one-bedroom units, 21 two-bedroom units, 21 three-bedroom units, and one three-bedroom manager's unit. The apartments are located on the upper floors above one level of at-grade parking, common amenity and service areas, and the ground-level manager's unit (in the northeast corner of the building). The building's lobby entry is accessed via a small, raised plaza area along Montecito Avenue, which also provides access to the vehicle driveway entrance along the westerly property line. Most of the apartment units face the perimeter of the site with some units facing an interior podium courtyard.



**Figure 2: Project Site Plan**

Proposed on-site amenities include a community meeting room and offices for service providers clustered in the northwest corner of the building. Outdoor common open areas are located next to the front lobby entrance, in a ground-level rear courtyard, and on top of the podium parking in the center of the building (with direct stair access to the rear courtyard).

### *Architecture and Design*

The proposed building has contemporary massing and design, featuring flat roof forms and a variety of materials, such as: stucco, board-and-batten siding, and lap siding on upper-floor walls; tongue-and-groove, cedar siding, and board-formed concrete on the first floor; and metal panels on the corridor bridge and exterior stairs. Metal balcony railings and awnings also accent the building.

The applicant has received early multi-departmental feedback on the project site plan and building design and has begun to address some of this feedback in the plans. The current plans also show recently proposed design modifications aimed at cost containment, including: removal of stacker parking; reduced decorative metal paneling on the bridge; and replacement of metal siding and special metal window systems at prominent building corners with board-and-batten siding and typical residential windows. Staff has identified the following areas for further design improvement based on Council comments related to other similar residential projects:

- Streetscape: Provide additional on-site trees and layered landscaping in the front setback to improve the pedestrian experience along the public sidewalk. Enhance the pedestrian entryway with a more prominent and balanced trellis feature with landscape planters and usable seating along the entry path and by the building entry.
- Residential Transition and Massing: Address blocky massing, particularly at the residential transition on the west elevation. Without reducing units, strategies may be limited to reducing blank wall areas, opening up boxy features like the west-facing balconies, incorporating warmer colors/siding elements, and other changes to add texture and interest or more strongly emphasize lower building levels.
- Rooflines: Study roofline adjustments, such as using an angled roof form above the balconies, to help taller walls and building areas appear more varied.
- Windows: Revise the window design to provide a more consistent pattern, which suits the building's architectural style. Staff supports some of the current window patterning. For example, the windows facing Montecito Avenue above the common room have a varied but regular pattern between floors, while the window pattern in other areas appears more jumbled and frenetic. Resolving this issue may require some floor plan adjustments.
- Materials and Colors: Staff generally supports the use of a board-and-batten material (orange-red features in renderings) and other related window changes but

recommends further refinement of: how/where new materials are applied given the extent of recent changes to key building corner design; the color/pattern of other accent materials, such as metal railings/panels to ensure adequate material interest and contrast; and overall color palette.

- Manager’s Unit: Enhance the ground-level design around the manager’s unit to have a stronger street presence near the corner of Montecito Avenue and North Shoreline Boulevard, such as a front patio and larger living area windows.



**Figure 3: Montecito Avenue Elevation**

If the project receives funding, the applicant will submit a formal development application to the City, which will include further design review with the Development Review Committee on the items noted above and any additional Council direction.

### *Parking*

Project parking is proposed at-grade with 44 parking spaces, a portion of which are “tuck-under” spaces accessed directly from the main driveway. Long-term bicycle parking is located in a secured bike storage room with short-term bike racks for guests. As an affordable project providing low- to very-low-income units within one-half mile of a major transit stop, the project is eligible for the State density bonus parking provision for a maximum parking ratio of 0.5 space per unit. The project is proposing a parking ratio of 0.5 space per unit consistent with the State Density Bonus Law due to the project’s proximity to the Mountain View Transit Center and one additional loading space.

### *Trees*

The project proposes the removal of six Heritage trees, including an Italian cypress tree, near the proposed driveway at the northwest portion of the property with moderate suitability for preservation and a carob tree within the proposed building footprint with low suitability for preservation. The other four Heritage trees are Coast redwood trees, three of which are highly suitable for preservation, and one is moderately suitable for preservation. The redwoods are located within or near the proposed building envelope at the northeast corner of the property and would require removal based on the current project design. Preserving these trees would require redesign of the portion of the building located around and above the manager's unit. The City arborist has recommended these trees be preserved. Staff has requested the applicant study options to preserve the redwood trees through redesign or transplant. As of the drafting of this report, staff does not have confirmation on the feasibility of either option. However, the applicant has indicated that project redesign to preserve these trees may result in the loss of units.

### *Entitlement Requirements*

The proposed project will require a General Plan Map Amendment, Zoning Map Amendment, Development Review Permit with a Density Bonus, and Heritage Tree Removal Permit. An Initial Study is required to be prepared for the project in accordance with the California Environmental Quality Act (CEQA).

### *Developer Site Control*

Charities Housing entered into a purchase agreement on the site on August 22, 2019 and closed escrow on the property on January 7, 2020. The total cost for the 1.04-acre parcel was \$9.5 million. The high land cost results in a high project cost for this proposed development. Finding residential sites in Mountain View has been challenging for affordable housing developers as they must compete with market-rate developers who can afford to pay more for the properties.

### **NOFA Evaluation**

The NOFA (Attachment 3 to the Council report) identifies 12 project goals and two housing priorities that should be used to evaluate the proposals. Attachment 4 to the Council report contains the discussion of how the project meets each of these goals and priorities. The proposal submitted by Charities Housing meets each of these goals and priorities.

Table 1 below shows the per-unit development cost for the City’s last seven affordable projects and how Charities Housing’s proposal compares side-by-side. As with most affordable housing developments, Charities Housing’s development costs are driven by high land costs and a sharp rise in construction costs over the past few years. Although some developers have recently reported a fluctuation in construction costs because of COVID-19, staff still does not have adequate data on how impacts to the supply chain and labor and material costs will affect construction costs for this development.



**Table 1: Cost Analysis**

Sponsor (Year Completed)	Development Name	No. of Units	No. of Bedrooms	Total Development Cost	Cost Per Unit	Cost Per Bedroom	City Subsidy	Subsidy Per Unit	Subsidy Per Bedroom
Charities Housing 1265 Montecito Avenue	Montecito Apartments	85	150	\$88,702,160	\$1,043,555	\$591,348	\$18,000,000	\$211,765	\$120,000
Eden Housing (Funding Reserved 12/8/20)	La Avenida Apartments	100	119	\$78,573,646	\$785,736	\$660,283	\$15,000,000	\$150,000	\$126,050
Alta Housing (under construction)	Luna Vista Apartments	71	72	\$53,294,200	\$750,623	\$740,197	\$22,772,844	\$320,744	\$316,290
MidPen Housing (2020)	Shorebreeze Apartments Expansion	62	94	\$38,096,381	\$614,458	\$405,281	\$8,157,608	\$131,574	\$86,783
ROEM Development Corp. (2019)	Evelyn Family Apartments	116	191	\$66,416,378	\$572,555	\$347,730	\$21,700,000	\$187,069	\$113,613
Alta Housing (2019)	Eagle Park Apartments	67	68	\$37,577,326	\$560,856	\$552,608	\$8,000,000	\$119,403	\$117,647
First Community Housing (2015)	1585 Studios	27	27	\$10,468,465	\$387,721	\$387,721	\$3,452,000	\$127,852	\$127,852
ROEM/Eden Housing (2015)	Studio 819 Apartments	49	49	\$17,396,762	\$355,036	\$355,036	\$8,952,623	\$182,707	\$182,707
	<b>Total</b>	<b>577</b>	<b>770</b>	<b>\$390,525,318</b>	<b>\$5,070,539</b>	<b>\$4,040,203</b>	<b>\$ 106,035,075</b>	<b>\$1,431,114</b>	<b>\$1,190,941</b>
	Average	72	96	\$48,815,665	\$633,817	\$505,025	\$ 13,254,384	\$ 174,193	\$ 152,992
	Median	69	83	\$45,695,291	\$593,506	\$478,944	\$ 11,976,312	\$ 166,353	\$ 123,025
	Range – High	71	72	\$53,294,200	\$750,623	\$740,197	\$ 22,772,844	\$ 320,744	\$ 316,290

## **Project Financing and City Subsidy**

### *Low-Income Housing Tax Credit Program*

Charities Housing plans on applying for the Federal Low-Income Housing Tax Credit (LIHTC) Program 4% tax credits, which will add nearly \$31 million in capital from the tax credit investors. The 4% tax credit program is noncompetitive, with several application cycles per year. Although the Federal tax credit program is considered noncompetitive, the securing of the State Multi-Family Bonds, which are necessary to apply for the Federal tax credits, has become competitive. Early in the NOFA application process, Charities Housing evaluated both the 9% tax credits and the 4% tax credits and decided that the 4% tax credits would allow more flexibility and would not add significant cost to the project budget. Table 2 below shows the proposed funding sources.

**Table 2: Funding Sources**

<b>Sources</b>	<b>Dollar Amounts</b>
Tax Credit Equity	\$31,085,934
City of Mountain View – NOFA	18,000,000
County of Santa Clara Measure A	16,000,000
Federal Home Loan Bank – Affordable Housing Program	820,000
Conventional Loan	9,507,000
Contributed Developer Fee	5,478,000
Deferred Developer Fee	877,655
Fee Waivers	5,473,911
Deferred Interest from City and County	1,459,660
<b>TOTAL</b>	<b>\$88,702,160</b>

### **Funding Considerations**

The City's over-the-counter NOFA program provides the ability for staff to review multiple projects and determine how best to facilitate affordable housing units expeditiously. A key component is projecting future housing fee revenues and lining them up with the project pipeline. The concept is that by the time the funding is 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 approximately 12 months.

Currently, the City has a balance of over \$50 million in housing funds available. In addition to this proposal, staff has received NOFA funding requests for two additional

developments and is considering purchasing property for affordable housing. The total funding necessary to fully fund all four proposals would be approximately \$65 million over the next four years. 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.

As mentioned earlier, Charities Housing has applied for \$16 million in Santa Clara County Measure A funds for this project. As required by the County of Santa Clara, the County or the jurisdiction in which the Measure A project is located must acquire the land. The County believes that this ensures long-term affordability of the development.

After careful consideration, staff believes it is beneficial for the City to acquire the Measure A-financed properties located in the City of Mountain View. By owning the properties, the City is able to retain land use control over the property for the long term while also ensuring long-term affordability. Staff is currently working on a Memorandum of Understanding (MOU) with the County to outline a Measure A funding commitment for this development as well as three to four other pipeline developments. It is anticipated that the programmatic MOU will be brought to the City Council after the summer recess.

To qualify for consideration of Measure A funds, the affordable developments fall into a Type 1 or Type 2 scenario. Type 1 consists of 50% of the development serving either permanent supportive housing (PSH) units or rapid rehousing (RRH) units, or a combination of PSH and RRH. The Type 2 scenario is one-third of the development being PSH, RRH, or a combination of the two; one-third of the development serving 30% AMI; and the remaining one-third of the units serving households up to 80% AMI.

Charities Housing has opted for the Type 2 scenario. For this development, the unit breakdown is as follows:

- One-third of the units reserved for RRH. The RRH concept focuses on households that have or are experiencing episodes of short-term homelessness.
- One-third of the units at 30% AMI. Since Charities is proposing project-based vouchers (PBVs), the units can go up to 50% AMI.
- One-third of the units up to 60% AMI. It is Charities Housing's mission to serve households up to 60% AMI.

The 28 RRH units will be filled through the Santa Clara County Community Queue after assessment. In Santa Clara County's coordinated assessment system, all homeless

individuals complete a standard assessment, referred to as the Vulnerability Index-Service Prioritization Decision Assessment Tool (VI-SPDAT). The assessment considers the household's current situation and identifies the best type of housing intervention to address the individual's needs. A community queue of eligible households is generated from the standard assessments received. This community queue is used to fill spaces in the permanent housing programs, including PSH and RRH throughout the County of Santa Clara. Targeted marketing to Mountain View residents and workers will also be incorporated and has been used in the past at Eagle Park Apartments (located at 1701 West El Camino Real).

Although the Santa Clara County Community Queue will be used to fill the 28 RRH units, Charities Housing will fill the 28 PBV units through either the Palo Alto Veterans Affairs or the Housing Authority, depending on the source of the PBV. Finally, the remaining one-third (28 units) of the development will be filled through an application process incorporating the City's live/work preference, where legally permissible. This implementation of the live/work preference is always subject to review by other funding sources.

### **Regional Housing Needs Allocation**

California State law mandates that local jurisdictions plan for the housing needs of residents, regardless of income. The State mandate is referred to as the Housing Element and Regional Housing Needs Allocation (or RHNA). As part of the RHNA process, the State of California Department of Housing and Community Development (HCD) determines the total number of new homes that are needed in the Bay Area and the affordability levels necessary to meet the housing needs of households of all income levels. These numbers are then distributed to the Association of Bay Area Governments (ABAG), which works with a Housing Methodology Committee to distribute a share of the housing need to each jurisdiction in the Bay Area. Then, each local government updates its General Plan to show locations where housing can be built and how it proposes to meet the target income levels.

Most cities in the Bay Area are just embarking on the 2023-2031 Housing Element cycle, and jurisdictions will most likely receive new RHNA numbers by the end of 2021. Below is a table showing the current RHNA numbers for the 2015-2023 cycle and projections showing how this NOFA project and La Avenida may help meet the RHNA goals.

**Table 3: RHNA Allocation**

<b>Affordability by Household Income</b>	<b>Units</b>	<b>Permitted Units</b>	<b>Montecito Units</b>	<b>La Avenida Units</b>	<b>Permitted Units – Montecito Avenue and La Avenida</b>
Very Low 0%-50% AMI	814	176	58	84	318
Low 51%-80% AMI	492	167	27	16	210
Moderate 81%-120% AMI	527	0	0	0	0
Above Moderate 120%+ AMI	1,093	2387	-	-	-
<b>Total</b>	<b>2,926</b>	<b>2,730</b>			

### **Neighborhood Meeting Input**

The first neighborhood meeting was held on January 14, 2021, via a Zoom webinar, with a total of 43 neighbors or interested community members registering and 32 attending the event. A few members of the public were concerned about traffic impacts, infrastructure impacts, etc. Several other community members requested additional information on how to apply for an affordable unit and what the leasing criteria would be for these affordable units. Overall, the comments were positive and encouraged the City to move the project along as quickly as possible.

### **FISCAL IMPACT**

When comparing the proposed Charities Housing project against prior developments, the total development cost is high, but that is to be expected since construction costs have risen at least 10% per year prior to the COVID-19 pandemic and sharply rose during the pandemic due to high material costs. When evaluating the project, staff and the City's outside consultant are evaluating how well the developer is leveraging the City's funding. Charities Housing is proposing to use multiple funding sources, including Santa Clara County Measure A funding, and this is demonstrated by the subsidy-per-unit figure shown in Table 1. The \$211,765 subsidy per unit falls within the median range. It is well below the \$320,744 per unit subsidy for Alta Housing's Luna Vista Apartments and moderately higher than La Avenida and Eagle Park Apartments as shown in Table 1. Eagle Park Apartments remains one of the best-leveraged affordable developments, utilizing a variety of funding sources at both the State and local levels.

There is no fiscal impact to the General Fund. The City Council is being asked to reserve \$18 million in Housing Impact funds for the NOFA proposal and appropriate \$1.3 million 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. Currently, the City has a balance of over \$50 million in housing funds available, so there is sufficient available balance for the \$18 million reservation of funds for the Montecito Avenue project.

The recommendation includes the direction to staff to include \$1.3 million in predevelopment funding in the recommended Fiscal Year 2021-22 budget. This has been included for consideration in the budget adoption staff report on tonight's agenda.

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

### **CONCLUSION**

Charities Housing has submitted a NOFA application to develop 85 units of affordable housing (including one manager unit) at 1265 Montecito Avenue. On June 7, 2021, the NOFA Review Committee met to review the request, and the NOFA Review Committee has forwarded the request for a reservation of funding to the City Council with a recommendation that the City Council reserve \$18 million in Housing Impact funds and appropriate \$1.3 million from the \$18 million for predevelopment activities.

## **ALTERNATIVES**

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

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