



# City of Palo Alto

## City Council Staff Report

(ID # 5197)

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**Report Type: Consent Calendar**

**Meeting Date: 12/8/2014**

**Summary Title: \$600k loan for 2811 Alma Street**

**Title: Approval of a \$600,000 Loan Request from Palo Alto Housing Corporation for 2811 Alma Street and Budget Amendment Ordinance**

**From: City Manager**

**Lead Department: Planning and Community Environment**

### **Recommendation**

Staff recommends that Council approve the \$600,000 Palo Alto Housing Corporation loan request for the property at 2811-2825 Alma Street, authorizing the City Manager to negotiate and execute the loan and promissory note, and adopt a related Budget Amendment Ordinance providing for funding from the Residential Housing Fund.

### **Executive Summary**

In 2011, the City received a \$1.89 million loan request from Palo Alto Housing Corporation to purchase two triplexes located at 2811-2825 Alma St. At that time, however, the City did not have sufficient fund balances in its Housing Funds to provide the \$1.89 million loan, and was only able to provide \$1.29 million. To make up the difference, the Opportunity Fund of Santa Clara County provided a two year, \$600,000 short term loan for the project acquisition with the understanding that the City would repay the short term loan, which is set to expire at the end of December 2014.

### **Background**

In 2011, Palo Alto Housing Corporation (PAHC) entered into negotiations with the owners of 2811-2825 Alma Street (Attachment C) and submitted a \$1.89 million offer for the purchase of these two parcels. The offer was accepted and escrow closed in December 2011.

The City provided PAHC a \$1.29 million acquisition loan funded from the City's Commercial Housing fund. The City provided a deferred, 3% interest, 55 year, residual receipts loans. PAHC secured a two year, interest only, \$600,000 loan from the Opportunity Fund of Santa Clara County. The Opportunity Fund portfolio has since been incorporated into the operations of the Housing Trust Silicon Valley (HTSV). The HTSV is responsible for maintenance of the loan. Since the long term goal is to redevelop the site, the Opportunity Fund agreed to a short term loan with the understanding that the City will repay the Opportunity Fund within the two year

timeframe. The then PCE Planning Director issued a letter to the Opportunity Fund stating that the City would increase their loan amount and “take out” the Opportunity Fund loan (Attachment B). When the long term redevelopment plans have been finalized, the HTSV may fund any proposed development with a longer term loan.

Since 2011, PAHC has purchased the adjacent parcel north of the site, 110-130 El Dorado, and PAHC is in the process of exploring various affordable housing options for the two sites combined. The requested action would not obligate the City to fund or authorize any future development on the site(s).

## **Discussion**

The need for affordable rental housing is well documented in the City. Because of increasing prices of the homeownership market, more households are now forced to rent instead of purchasing a home. Residential rental vacancies in Palo Alto are at 2%-3% and rental rates are continuing to increase, making it increasingly difficult for low income households to find housing in Palo Alto.

### Loan Agreement

The City’s original loan for \$1.29 million was provided as a 3%, deferred, residual receipts, 55 year term loan, with the option to forgive the loan at the end of the 55 year term. The loan is in subordinate position to the \$600,000 Opportunity Fund loan. If the Council approves the recommended action, the City’s new \$600,000 loan would “take out” the Opportunity Fund loan and the City would be the sole lender on the project. As part of the original acquisition financing, PAHC contributed \$40,000. Over the past two years, PAHC has contributed approximately an additional approximately \$22,000 of their own funds to the project for rehabilitation expenses for a total PAHC contribution of \$62,000. Annual installments to repay the loan are limited to residual receipts (the Project’s gross revenue less operating expenses) generated by the project.

### Rents and Occupancy of the Apartments

As mentioned, the current rents are the equivalent of low income rents. PAHC does not anticipate raising rents. Occupancy of the units is for low income households. There are two over-income households that have been residing in the units since PAHC had purchased the unit. PAHC is working with the over-income households to vacate the units. An income eligible household would subsequently occupy the unit.

Because of the current rent levels, age of the units and the Opportunity Fund loan payments, the project is operating at a deficit. PAHC is paying over \$2,200 per month for the Opportunity Fund loan. Attachment C is included to show the sources and uses of funds. The ongoing maintenance expenses have been greater than anticipated due to the age of the residences. PAHC has been expending their funds to maintain the property. They have put an additional \$22,000 into the project since the acquisition since their initial investment of \$40,000.

### Redevelopment Opportunities

Under the current RM-15 zoning, the maximum number of units on each parcel is two units. There are three existing units on each parcel so the use is legal and non-conforming. PAHC has acquired the adjacent parcel at 110-130 El Dorado, which has four units, and has discussed with staff the possibility of combining the lots and redeveloping the combined sites. In the interim, the existing 10 units will be rented as PAHC explores their options.

### Housing Element and RHNA

The City recently adopted its 2015-2023 Housing Element update. Under limited circumstances, the State allows the City to credit up to 25% of its RHNA allocation through existing units that have been substantially rehabilitated, converted, or preserved at affordable costs. There are a number of requirements that need to be met for existing units to qualify for RHNA credit. One requirement is that the financial assistance must be provided in the first two years of the planning period. Staff is exploring with HCD whether these existing units are eligible for credit towards the City's RHNA.

### **Resource Impact**

The funds for the \$600,000 loan would come from the Residential Housing Fund. No General Fund monies would be used for this housing project. To date, PAHC has provided \$62,000 of their funds in the project. At time of acquisition, PAHC contributed \$40,000 for the rehabilitation of the units. They have contributed an additional \$22,000 since that time.

There are sufficient funds in the Residential Housing Fund to make the loan. Palo Alto collects housing in-lieu fees from small projects, for fractional units and for residential developments where it is infeasible to provide below market rate units on-site. These fees, along with interest earnings of the Fund and other miscellaneous revenues related to housing, are placed in the Residential Housing Fund. The Residential Housing Fund may be used to provide funding for new housing development or for the conversion of existing housing to affordable housing through acquisition.

### **Policy Implications**

The actions recommended in this report implement the City's recently adopted Housing Element policies and programs supporting the development of low income housing.

### **Environmental Review**

The project is Categorical Exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15301 (Class One – Existing Facilities). The proposed loan would be used for acquisition of existing structures only. Any future proposal to reuse the site for another purpose or to redevelop the site to include more housing units would need to be reviewed pursuant to CEQA prior to any City decision to provide additional funding or approvals.

### **Attachments:**

- Attachment A: Budget Amendment Ordinance (DOCX)
- Attachment B: Letter from PCE Director to Opportunity Fund dated November 28, 2011 (PDF)
- Attachment C: Project Sources and Uses (PDF)

Ordinance No. XXXX

ORDINANCE OF THE COUNCIL OF THE CITY OF PALO ALTO AMENDING THE BUDGET FOR FISCAL YEAR 2015 TO PROVIDE ADDITIONAL APPROPRIATION OF \$600,000 FROM THE RESIDENTIAL HOUSING IN-LIEU FUND FOR A LOAN TO THE PALO ALTO HOUSING CORPORATION (PAHC) FOR PROPERTY AT 2811-2825 ALMA STREET

The Council of the City of Palo Alto does ORDAIN as follows:

SECTION 1. The Council of the City of Palo Alto finds and determines as follows:

A. Pursuant to the provisions of Section 12 of Article III of the Charter of the City of Palo Alto, the Council on June 16, 2014 did adopt a budget for Fiscal Year 2015; and

B. The Palo Alto Housing Corporation is the owner of property located at 2811-2925 Alma Street, that provides low-income housing to Palo Alto residents; and

C. The City's Affordable Housing Fund Guidelines require that funds be used to expand, preserve, or improve the supply of low and moderate income housing in the City as defined by the City's comprehensive plan and this project will help the City meets its Regional Housing Needs Allocation (RHNA) requirement as mandated by the State of California; and

D. Due to funding constraints in 2011, the City was unable to provide the Palo Alto Housing Corporation with the full amount requested for the purchase of 2811-2925 which required PAHC to secure supplementary financing from the Santa Clara Opportunity Fund in the amount of \$600,000 on an interim basis to purchase the property located at 2811-2925 Alma Street; and

E. A loan of \$600,000 from the Residential Housing In-Lieu Fund balance will be committed to the Palo Alto Housing Corporation to offset the supplementary financing secured from the Opportunity Fund.

SECTION 2. Therefore, the sum of Six Hundred Thousand Dollars (\$600,000) is hereby appropriated in the Residential Housing In-Lieu Fund for property at 2811-2825 Alma Street and the ending fund balance in the Residential Housing In-Lieu Fund is decreased by Six Hundred Dollars (\$600,000).

SECTION 3. As provided in Section 2.04.330 of the Palo Alto Municipal Code, this ordinance shall become effective upon adoption.

SECTION 4. The Council of the City of Palo Alto hereby finds that this is not a project under the California Environmental Quality Act and, therefore, no environmental impact assessment is necessary.

INTRODUCED AND PASSED:      Enter Date Here

AYES:

NOES:

ABSENT:

ABSTENTIONS:

NOT PARTICIPATING:

ATTEST:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

APPROVED:

\_\_\_\_\_  
Senior Assistant City Attorney

\_\_\_\_\_  
City Manager

\_\_\_\_\_  
Director of Planning &  
Community Environment

# Attachment B

## City of Palo Alto

Department of Planning and  
Community Environment

November 28, 2011

Toby Lieberman  
Affordable Housing Loan Program Director  
Opportunity Fund  
111 W St. John St, Suite 800  
San Jose, CA 95113

**RE: Opportunity Fund Loan for Acquisition of 2811-2825 Alma Street**

Dear Ms. Lieberman:

The Opportunity Fund has agreed to provide a \$600,000 loan to Palo Alto Housing Corporation for the acquisition of 2811-2825 Alma Street. The terms of the \$600,000 loan is an interest only, 4.5%, two year (with an option for a third year) term. As part of its loan approval, the Opportunity Fund requests the City agree to two conditions. The conditions are as follows:

1. The City subordinates its \$1,250,000 loan to the Opportunity Fund loan; and
2. The City would act as the primary source of repayment of this loan within the timeframe of the loan.

City staff agrees and will recommend subordination of its loan to the Opportunity Fund loan to the City Council. City staff also understands that this is a short term loan and will recommend to Council to agree to repay the Opportunity Fund within its loan timeframe.

The City of Palo Alto looks forward to working with the Opportunity Fund in creating greater affordable housing opportunities in the City.

Sincerely,



CURTIS WILLIAMS  
Director of Planning and Community Environment

Planning  
250 Hamilton Avenue  
P.O. Box 10250  
Palo Alto, CA 94303  
650.329.2441  
650.329.2154

Transportation  
250 Hamilton Avenue  
P.O. Box 10250  
Palo Alto, CA 94303  
650.329.2520  
650.617.3108

Building  
285 Hamilton Avenue  
P.O. Box 10250  
Palo Alto, CA 94303  
650.329.2496  
650.329.2240

# Attachment C

## 2811 - 2825 ALMA/ EL DORADO

### ANNUAL OPERATING BUDGET 2015-2016

| ANNUAL OPERATING BUDGET 2015-2016 |  |                |
|-----------------------------------|--|----------------|
| ACCT. #                           | REVENUE                                    |                |
|                                   | <b>GROSS RENTAL INCOME</b>                 | <b>170,244</b> |
|                                   | <b>OTHER INCOME</b>                        | <b>640</b>     |
|                                   | <b>GROSS INCOME</b>                        | <b>170,884</b> |
|                                   | VACANCY (5% based on historical average)   | (7,097)        |
|                                   | <b>NET INCOME</b>                          | <b>163,787</b> |
|                                   | <b>TOTAL REVENUE</b>                       | <b>163,787</b> |
|                                   | <b>EXPENSES</b>                            |                |
|                                   | <b>ADMINISTRATIVE EXPENSES</b>             | <b>20,227</b>  |
|                                   | <b>OPERATING EXPENSES</b>                  | <b>16,753</b>  |
|                                   | <b>MAINTENANCE CONTRACTS &amp; REPAIRS</b> | <b>20,101</b>  |
|                                   | <b>INSURANCE &amp; TAXES</b>               | <b>39,297</b>  |
|                                   | <b>TOTAL PROPERTY EXPENSES</b>             | <b>96,378</b>  |
|                                   | <b>NET OPERATING SURPLUS</b>               | <b>67,409</b>  |
|                                   | <b>FINANCIAL EXPENSES**</b>                | <b>71,700</b>  |
|                                   | <b>SURPLUS/DEFICIT</b>                     | <b>(4,291)</b> |

\*\* Outstanding \$62,000 PAHC loan not included.