TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT
DATE: SEPTEMBER 18, 2006 CMR:363:06

SUBJECT: AGREEMENT BETWEEN THE CITY OF PALO ALTO, EDEN HOUSING, INC. AND COMMUNITY HOUSING ALLIANCE, INC. TO FUND A DEPOSIT FOR SITE ACQUISITION AND TO CONDUCT PREDEVELOPMENT ACTIVITIES FOR THE PROPOSED ALMA STREET FAMILY RENTAL HOUSING PROJECT.

RECOMMENDATION
Staff recommends that the City Council approve the Alma Street Family Rental Housing Project Agreement between the City, Eden Housing and the Community Housing Alliance. The agreement provides for the funding of a deposit for site acquisition and conducting of predevelopment activities for the planned project.

BACKGROUND
Since the spring of 2003 Eden Housing, Inc. has been under contract to the City of Palo Alto to identify potential sites suitable for a higher density affordable housing project. Given the extremely high price of land in Palo Alto, Eden began to focus on the Alma Street substation site (841 Alma) since it was City-owned and the Utilities Department had indicated an interest in relocating the substation to its Quarry Road site. At a City Council study session held on September 27, 2004, the City Council noted there was a great need for workforce housing although senior housing appeared to be the best option due to the size constraints of the substation site.

Eden Housing is now partnered with the Community Housing Alliance (CHA), an affiliate of the Community Working Group. The proposed partnership with the three parties is similar to the successful collaborative partnership that resulted in the Opportunity Center. CHA has entered into a contract with the property owner of 801/809 Alma (Ole’s Car Shop) to purchase the site. This site would be combined with the substation site (841 Alma) to form an expanded site, making possible the development of a family housing project (see Exhibit A for a project site map). Eden and CHA, working with architect Rob Wellington Quigley, have developed preliminary designs for a family housing project.

The City Council held a study session on the proposed project on July 10, 2006. Eden Housing and CHA presented an overview of the project. Council questions focused on the profile of
future tenants, the fiscal implications of the purchase of the Ole’s (801/809 Alma) site, the relocation of the substation and the development of the project. On July 24, 2006, the Council approved an agreement with Stanford University to relocate the substation and an agreement with Palo Alto High Street Partners (800 High St.) to accept one million dollars in exchange for the substation being removed by early 2008.

The current Eden/CHA plans for the project show the development of 53 one-three bedroom housing units. The target income level for future residents are extremely low income families at 30% to 35% of the Area Median Income (AMI). In Santa Clara County, those incomes would range from $22,290 to $26,005 for one person, up to $36,930 to $43,085 for a family of six. Rents would not exceed 30% of income.

**DISCUSSION**

The agreement before the Council authorizes the City of Palo Alto, Eden Housing and CHA to continue joint efforts to develop housing on the combined parcels of 841, 809 and 801 Alma St. The City has agreed to relocate the substation to make available the City-owned site of 841 Alma and has selected Eden Housing to develop this City parcel. CHA and Ole’s Car Repair have entered into a purchase and sale agreement to purchase the Ole’s site (801 and 809 Alma) for $4.0 million. CHA and Eden Housing entered into an agreement on May 16, 2006 to work together to form a limited partnership to develop an affordable housing project on the combined city and Ole’s sites.

Under the terms of the three party agreement before the Council:

- CHA has made an initial deposit into escrow of $20,000 toward the purchase of the Ole’s site. An additional $980,000 deposit must be made by September 30, 2006.
- The City agrees to contribute the additional $980,000 needed for the deposit on the purchase of the Ole’s site, to be deposited into escrow by September 30, 2006.
- Prior to the City’s deposit of the $980,000, CHA will execute and deliver to the City a Promissory Note for $480,000 (Exhibit B) and Eden Housing will execute and deliver to the City a Repayment Guaranty (Exhibit C) for actual repayment of $480,000 of the deposit. The Promissory Note requires repayment by September 18, 2007.
- The City pledges to contribute an additional $3 million towards the purchase price of the Ole’s site when and as needed to close escrow at the time of purchase. The purchase date is August 1, 2008. The additional $3 million City contribution means the City will be contributing a total of $3.5 million to the purchase of the Ole’s site.
- The City, Eden Housing and CHA will enter into good faith negotiations to negotiate a Development and Disposition Agreement (DDA). The DDA will provide for the transfer of the City parcel to the Eden/CHA partnership and the transfer of the Ole’s parcel from CHA to the Eden/CHA partnership. It will address, among other things, the financial investment by the parties in the proposed project, project entitlement responsibilities and schedule, project unit mix and rental levels, and site layout, design and architectural plan issues. The parties agree to negotiate, approve and execute a DDA within six months of this agreement.
If CHA does not exercise its right to purchase Ole’s, CHA will reimburse the City for the $500,000 actual deposit the City has made. ($980,000 minus the $480,000 already repaid by Eden Housing).

Should the Ole’s site not be used for affordable housing by the CHA/Eden partnership or its successors, title to the site would revert to the City.

A tentative performance schedule (Exhibit D) reflecting the above referenced dates as well as project site development dates is attached to the agreement. The project site is located within the SOFA 2 Coordinated Area Plan and will require a Planned Community (PC) Rezoning. Preliminary staff and ARB level review of a proposed project is anticipated to begin in the first quarter of 2007 with a formal PC application to follow. The PC process requires ARB and Planning and Transportation Commission review, and City Council approval.

**RESOURCE IMPACT**
The City will contribute $3.5 million towards the purchase of the Ole’s site. This amount includes the $980,000 deposit made by September 30, 2006 minus the $480,000 guaranteed reimbursement from Eden Housing, plus the $3 million to be paid for site purchase at the close of escrow, August 1, 2008.

In addition to the above funding, Eden and CHA expect to need approximately $7 million in City subsidies for construction costs together with funding from tax credits, the County Housing Trust, and the State to make up an estimated $24 million development budget. The amount and type of additional financial assistance from Palo Alto, above and beyond its contributions to the purchase of the Ole’s site, will be spelled out in the DDA. All City financial funding for the project will come from the City’s Commercial and Residential Housing Funds, not the General Fund.

The City of Palo Alto is also contributing the 841 Alma substation site to the project. The estimated value of the 15,750 square foot site at $125 per square foot is $1,968,750.

**POLICY IMPLICATIONS**
This project will provide 53 units of extremely low income workforce, family housing. Both workforce and family housing have been long-identified Council priorities and are specifically stated as priorities for the City’s affordable housing funding in both the Housing Element and in the HUD Consolidated Plan. These 53 units will be a substantial step towards closing the gap on the City’s 107 unit unmet share of our regional very low income and below housing needs.

The project is consistent with Comprehensive Plan's Housing Element and the Phase 2 South of Forest Avenue (SOFA) Coordinated Area Plan (CAP) which encourages the development of new housing and expanding the supply of affordable housing. In order to encourage affordable housing within the SOFA area, the SOFA CAP includes a program that allows floor area bonuses for housing projects that provide below market rate units in excess of the requirement. The project site is zoned RT-50; multiple family uses are permitted in the RT-50 zone.
ENVIRONMENTAL REVIEW
A Final EIR entitled "South of Forest Avenue (SOFA) Coordinated Area Plan (CAP)" addressed the environmental impacts of future development within the SOFA area. The project site is located within the SOFA CAP. Impacts from acquisition of the properties and approval of the predevelopment agreement for future housing on the site are adequately covered in this FEIR. Environmental impacts from future development of the site will be further analyzed through subsequent environmental review when a development application is submitted to the City for the properties.

PREPARED BY:  
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ATTACHMENTS
Attachment A: Agreement between City of Palo Alto, Eden Housing and the Community Housing Alliance
Attachment A has the following exhibits as part of the Agreement:
Exhibit A: Property Description
Exhibit B: Promissory Note
Exhibit C: Repayment Guaranty
Exhibit D: Tentative Performance Schedule

cc:  
Community Housing Alliance  
Eden Housing Corporation  
Ole’s Repair Shop