TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT
DATE: SEPTEMBER 15, 2008 CMR: 372:08
SUBJECT: APPROVAL OF AMENDMENT TO ALMA STREET AFFORDABLE MULTI-FAMILY RENTAL HOUSING PROJECT ACQUISITION AND DEVELOPMENT AGREEMENT TO AMEND THE SCHEDULE OF PERFORMANCE AND PROVIDE THAT THE CITY HOLDS TITLE TO THE CITY PARCEL AND OLE’S PARCEL UNTIL CONSTRUCTION FINANCING CLOSING FOR THE DEVELOPMENT

RECOMMENDATION
Staff recommends that the City Council approve the attached amendment to the Alma Street Affordable Multi-Family Rental Housing Project Acquisition and Development Agreement (ADA Amendment) between the City and Palo Alto Family, L. P.

BACKGROUND
The August 6, 2007 Acquisition and Development Agreement (ADA) between the City, Eden Housing and Community Housing Alliance (CHA) set forth the terms and conditions for City financing for the acquisition of the property at 801 Alma Street (also known as the Ole’s Parcel) and the transfer of title to the City-owned property at 841 Alma Street (the City parcel) for the purpose of creating a site for a mixed use development with 50 affordable family rental units over ground floor retail space. The City fulfilled its obligation, as required by the ADA, to remove the electrical substation facility and equipment from the City parcel by the end of 2007. Palo Alto Family, L.P., (the Partnership set up by Eden Housing and CHA to be the project developer) closed escrow and took title to 801 Alma on August 1, 2008 using a City housing fund loan of $3.5 million and $500,000 contributed by CHA. An application for a Planned Community (PC) zone change has been submitted to the City and the Architectural Review Board (ARB) conducted a preliminary review on September 4, 2008. Eden Housing and CHA have requested certain amendments to the ADA regarding ownership of the project site prior to the beginning of construction (Attachment A). In addition, the
Schedule of Performance needs to be updated with the current target dates for the PC application review, financing milestones and estimated construction schedule (Attachment B).

**DISCUSSION**

The ADA specifies that the City would transfer title of the City parcel to the developer concurrently with the developer’s acquisition of 801 Alma Street. However, Eden Housing and CHA have requested that the City postpone transferring title of the City parcel until the financing for the family housing project is in place and the project is ready to begin construction. They have also requested permission to deed the 801 Alma property to the City on, or shortly after, October 2, 2008, in order for the City to hold title to the entire family housing project site until the developer is ready to begin construction. It is projected that the City would hold title for about 15 months or until February 2010. If the developer holds title to the site during this period, the affordable housing project’s budget will have the burden of paying real property taxes on the full fair market value of the land. As described in the ADA Amendment, the deed to 801 Alma will not be recorded until the property is vacant and a closure permit has been issued by the City’s Fire Marshal. The developer will also be responsible for liability insurance coverage and property maintenance for the 801 Alma property during the holding period and the City will continue to maintain the City parcel. Under the existing terms of the ADA, the City is fully indemnified for any existing conditions on the property at 801 Alma, including environmental contamination.

Revisions to Schedule of Performance: The project schedule is about six to eight months behind the original schedule approved in August 2007 as part of the ADA. Eden Housing and CHA have worked diligently and in good faith over the last 12 months on the many tasks in the predevelopment phase. However, issues connected with the negotiation of the purchase and condominium agreements with the owners of the 875 & 853 Alma Street properties were the principal cause for delay in submittal of a complete application for planning entitlements. The revised schedule (Attachment B) estimates that Council action on the PC zone change will be completed by April 2009, which is a key milestone in order for the developer to apply for tax credits in the summer of 2009. Because the tax credit funding is highly competitive, the ADA allows the developer to reapply during two years of funding cycles. If successful in securing necessary construction financing awards in 2009, the developer will take title to the site and begin construction in early 2010 with project completion by late 2011.

**RESOURCE IMPACTS**

There are no significant resource impacts of the City retaining title to the City parcel until the new housing is ready to be constructed. The City may be able to use the property for temporary storage of City vehicles during this period. The developer will bear the expenses of insuring and maintaining the 801 Alma property. Also, holding title to the entire family housing site strengthens the City’s security for its site acquisition loan.
POLICY IMPLICATIONS
The proposed amendments to the ADA will support the development of this affordable family rental housing by helping to reduce the project’s development costs. The project is consistent with the Comprehensive Plan's Housing Element and the Phase 2 South of Forest Area Coordinated Area Plan (SOFA CAP) which encourages the development of new housing and expanding the supply of affordable housing.

ENVIRONMENTAL REVIEW
The City has initiated preparation of an Environmental Impact Report (EIR) covering the development of the project; the EIR will be completed prior to final review of the Planned Community application.

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CITY MANAGER APPROVAL:
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City Manager

ATTACHMENTS
Attachment A: Amendment to Alma Street Affordable Multi-Family Rental Housing Project Acquisition and Development Agreement between City of Palo Alto, Eden Housing and the Community Housing Alliance
Attachment B: Amended Attachment No. 3: Amended Schedule of Performance

cc:
Community Housing Alliance
Eden Housing Corporation
Ole’s Automotive Repair Shop
Palo Alto Hardware Store
Palo Alto Family, L.P.