TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT

DATE: FEBRUARY 4, 2002

CMR: 140:02

SUBJECT: COUNCIL APPROVAL OF DISPOSITION AND DEVELOPMENT AGREEMENT BETWEEN THE CITY OF PALO ALTO AND PALO ALTO HOUSING CORPORATION AND OAK COURT APARTMENTS, L.P., INCLUDING A BUDGET AMENDMENT ORDINANCE TO FUND A DEVELOPMENT SUBSIDY LOAN ($1,960,000) AND CERTAIN PROPERTY HOLDING AND CLEARING COSTS ($143,000)

REPORT IN BRIEF

In previous actions, the City acquired a fully paid option to the 1.23 acre housing site at 845 Ramona Street, which was designated for affordable multi-family rental housing in the SOFA Coordinated Area Plan. Last June, Council selected the Palo Alto Housing Corporation (PAHC) as the developer through a competitive request for proposal process. In December, the City approved a coordinated development permit for the 53-unit Oak Court rental housing project. The proposed actions are necessary for PAHC to complete a March 26, 2002 application for an allocation of the Low Income Housing Tax Credits, which will fund approximately fifty-five percent of the project’s development budget. The Budget Amendment Ordinance (BAO) will fund a $1,960,000 City deferred payment loan for development costs and $143,000 for property holding and clearance expenses. These funds are available in the City’s Housing Commercial Housing In-Lieu and Residential Housing In-Lieu Funds. No General Fund monies are being utilized. The Disposition and Development Agreement will transfer site control to PAHC and commit the City loan funds, subject to PAHC securing the tax credit award and constructing and renting-up the housing. Other Council actions that implement the financing package are part of the staff recommendations. These include actions related to the future sale of a single family house at 1259 Pine Street, presently owned by PAHC, but with recorded City restrictions on its
use and sale, and implementation of a shared ramp financing agreement with the adjoining commercial project. If PAHC is successful in the tax credit funding competition, then construction will begin in late summer with occupancy by the end of 2003.
RECOMMENDATION
Staff recommends that the City Council:

1. Adopt a Budget Amendment Ordinance (BAO) in the amount of $2,103,000 to fund a $1,960,000 development loan to Oak Court Apartments, L.P. (from the Commercial Housing In-Lieu Fund) and to provide up to $143,000 (from the Residential Housing In-Lieu Fund) for property holding and clearance expenses during the City’s site option.

2. Approve the attached Disposition and Development Agreement, which provides a development subsidy loan of $1,960,000 and authorizes the assignment of the City’s option to acquire the Oak Court site to PAHC, subject to a fully deferred land loan and PAHC securing the necessary financing and subsidies to develop the housing.

3. Direct the City Attorney to prepare regulatory agreements, notes and deeds of trust between the City of Palo Alto and the PAHC, concerning the use of the land and the land loan, and between the City of Palo Alto and the Oak Court Apartments, L. P. concerning the use of the housing units and the development loan, for Council review and action.

4. Authorize the Mayor to execute the Disposition and Development Agreement and any other documents required to transfer the site option, and ownership of the site, and direct the City Manager to administer the provisions of the agreement.

5. Direct the City Attorney to prepare for Council review and action an amendment to the Agreement of Sale concerning the house at 1259 Pine Street in order to waive certain City rights under the 1980 Agreement to permit PAHC to sell the house and utilize the net proceeds for Oak Court development costs.

6. Authorize the Director of Planning and Community Environment to approve and execute the Shared Ramp Financing Agreement on behalf of the City of Palo Alto and to enforce the terms and conditions of that agreement.

BACKGROUND
Pursuant to the April 2000 development agreement between the City of Palo Alto and Palo Alto Medical Foundation (PAMF), the City obtained a three-year option to acquire a 1.23-acre site on the block bounded by Channing Avenue, Ramona Street, Homer Avenue and Bryant Street in the South of Forest Area (SOFA) (now identified as 845 Ramona Street). About 0.60 acres of the site is to be dedicated and the remaining 0.63 acres is being purchased. Due to the long-term nature of the option, the City agreed to pay the full price (approximately $3 million) of the 0.63 acres at the closing with PAMF. On July 19, 2000, escrow closed on the sale of all PAMF’s former properties and SummerHill Homes acquired legal title to the affordable housing site, subject to the City’s option and the other provisions of the development agreement. The three-year term of the City’s option expires
in July 2003.

On June 11, 2001, Council approved the selection of PAHC as developer of the SOFA housing site based on the recommendation of an evaluation committee after a competitive Request for Proposal process. In response to the City’s selection criteria, PAHC proposed 53-units of very low and low-income family-oriented rental apartments over underground parking, financed primarily with investment equity pursuant to the competitive Low-Income Housing Tax Credit program. The principal factors in PAHC’s selection were its emphasis on very low-income, family housing, sensitivity to neighborhood concerns and willingness to preserve important site features such as the largest heritage oak tree and the historic house at 840 Bryant Street.

The development has been named Oak Court Apartments. The project team includes Michael Pyatok, a noted architect of affordable housing. Several meetings were held with the community to discuss site design issues and two study sessions were held with the Architectural Review Board / Historic Resources Board for SOFA (the Joint ARB/HRB). Generally, the response from the neighborhood was very favorable. The concerns of immediately adjoining property owners, businesses and residents (opposite the project on the western side of Ramona and the medical building owners at 824 Bryant) have been addressed in the final conditions of approval for the apartment project. On November 8, 2001, the Joint ARB/HRB reviewed and recommended approval of PAHC’s design review application and a coordinated development permit was issued by the Director of Planning and Community Environment on December 4, 2001. The project now has its discretionary planning entitlements, although the final site plan must be reviewed by a subcommittee of the Joint ARB/HRB prior to submittal of the building plans.

The apartment project and the adjoining mixed-use commercial project at 250/270 Homer Avenue were designed, and approved, with a shared access ramp located on and under the housing site, approximately 80 feet south of 819 Ramona Street (the former AME Zion Church). The shared ramp will provide vehicular access to the underground parking for both developments. All design, engineering and construction costs attributable to the shared ramp and access lane will be paid by the commercial project in the form of a letter of credit that must be available by the start of the housing project construction. The purpose of the shared ramp is to improve circulation in the area, assist the housing developer with its garage costs and ensure that sufficient parking will be available for both the housing and the commercial project. Current estimates of the shared ramp costs to be funded by the commercial developer are approximately $522,000. A Shared Ramp Financing Agreement, between the City, PAHC and the commercial developer, has been prepared by PAHC and is currently under review. Council approved the basic terms of the Agreement as part of the appeal hearing on the mixed-use project. Council action is requested now to clearly delegate authority to the Director of Planning and Community Environment to approve the agreement and execute and enforce its provisions.
PAHC has made significant progress assembling financing and in obtaining outside grants and subsidies to construct the Oak Court project. The construction and permanent lenders have made preliminary commitments and subsidized loans and grants totaling $670,000 have been secured from the County Housing Trust and the Affordable Housing Program. PAHC has also agreed to provide up to $400,000 of its developer fee as a loan to the project to cover budget shortfalls, if any. The critical financing piece is the allocation of Low Income Housing Tax Credits that are expected to provide almost $8 million of the project’s $14.7 million development budget. This program is always extremely competitive and demand far exceeds the supply. PAHC will submit an application for the first 2002 round of competition, due on March 26, 2002. Decisions will be announced on May 22. PAHC must legally control the site and have a binding commitment of City funds prior to the March 26 application date. Approval of the attached Disposition and Development Agreement (DDA) and the BAO will provide PAHC with the required documentation of site control and City funding.

DISCUSSION
Provisions of the DDA

The Disposition and Development Agreement has several functions. It assigns PAHC the right to acquire the housing site immediately prior to the start of construction, provided that PAHC has assembled the entire package of construction and permanent financing including receipt of the housing tax credit allocation. There is flexibility built into the DDA for the City to acquire legal title to the site and then convey title to PAHC or for PAHC to acquire title directly from SummerHill. The City’s intention is to acquire title to the site as soon as PAHC completes the final environmental testing and receives a closure letter from the Regional Water Quality Control Board. Staff expects that this process will be completed within two months. Under public agency ownership, the site will be exempt from real property taxes.

The City’s $1.96 million development loan will be provided to the Oak Court partnership and will be repaid from surplus cash flow from the project’s operations over its 55-year term. This loan accrues three percent simple interest. Payments on the development loan will commence after repayment of PAHC’s deferred development fee and the loan from the Housing Trust Fund of Santa Clara County (HTF) loan. Current projections show that repayments on the City loan will commence by the 17th year, with full payment by the 50th year of the loan’s term.

$160,000 of the City’s $1.96 million development loan is to be used only for the cost of specific upgrades to utility infrastructure in the project area that could be required under the conditions of approval by the City’s Utility and Public Works Departments. The ARB/HRB conditions of approval include measures requiring the developer to study infrastructure capacity for storm drain, sewer and water facilities that would be affected by this new development. For example, if there is insufficient sanitary sewer capacity, then construction of new sewer lines could be required of the developer. For some infrastructure, such as the
storm drain system, the deficiencies are already documented, and an on-site retention system must be constructed to avoid excess flows. For other systems, the requirements and costs will not be known until PAHC completes the required studies. Due to this uncertainty, the City agreed to provide this additional $160,000 in loan funds for these specific infrastructure costs. After project completion, if unused funds remain in the construction budget, then such funds will be used to the extent available before the City’s $160,000. If the infrastructure upgrade costs exceed the $160,000 and there are no unused funds within the project’s budget and contingency, then PAHC will need to fund that excess from its own resources.

In order to provide security for the City’s land contribution, the project has been structured so that the land will be owned by PAHC, and leased for 55 years to the entity that owns the apartments. Initially, the apartments and other site improvements will be owned by the tax credit partnership. The partnership’s managing general partner is a nonprofit entity controlled by PAHC. However, under federal tax law this ownership structure exists just for the 15 years that the tax credit partnership must hold title to the apartments. At that point, PAHC can exercise an option it will hold to acquire the apartments from the limited partner investors. However, the apartments must still continue to be operated as low-income rental housing according to the original 55-year tax credit regulatory agreement and the City’s regulatory agreements, regardless of any changes in the ownership.

Splitting the ownership of the land and improvements enabled the land value of the entire site to be secured by a note and deed of trust recorded against the land. This also eliminated certain legal issues under the tax credit regulations that would have been created if such a large loan were a debt of the partnership. The land value of the 1.23 acres was estimated, to set the note amount, based on the actual amount the City paid ($3,008,845) in July 2000 for the option on the 0.63 acre portion that is being purchased. Using this method, the principal amount of the land loan note is $5,874,000.

The land loan note will accrue interest at five percent compounded annually. Due to the targeting of the project to very low-income households, there will be relatively little cash available to pay off secondary loans, after paying operating costs and the payments on the bank’s loan. During the first 55-years of operation, any available cash flow will go first to payment of the other secondary loans (the PAHC developer fee loan, the HTF loan and the City’s $1.96 million development loan). It is unlikely that the project will generate sufficient surplus cash flow to repay the City land loan. For this reason, payments of interest and principal on the land loan are fully deferred for 55-years.

At the end of the 55-year loan term, there are several options open to PAHC. PAHC may extend the land regulatory agreement for an additional 44-years of housing affordability, with the accrued principal and interest on the land loan converting to an amortized loan over the 44-year term with the annual payments forgiven, provided the project remains in compliance with the land regulatory agreement. If PAHC does not extend the affordability
provisions, then the land loan is due and payable in full. This is the reason that the initial land loan amount is based on the approximate current market value of the land and that the interest rate is close to market rates.

As additional security for its land contribution, the City holds an option to purchase the entire property at the end of 55-years should PAHC not extend the affordability. The City might choose this course of action in order to acquire the project and then transfer it to another housing developer willing to continue to operate the project as affordable rentals. The City’s option price is the greater of:

1) The assumption of the unpaid balance of any previously City-approved loans on the property, or
2) The appraised value of the apartments based on the extended 44-years of affordability.

The concept is that second price calculation would be higher if PAHC had maintained the apartments in excellent condition, a situation under PAHC’s control as the landowner and managing general partner. However, PAHC would not receive any profit in the transaction from inflationary increases in the land value, as the land is an asset that was contributed, and paid for, by the City. The balance due on the land loan will be forgiven if the City exercises its option to purchase.

The DDA also includes a schedule of performance (Attachment C to this report) that is a list of key tasks and milestones from the submittal of the tax credit application through construction, rent-up and the closing of the permanent financing. The performance milestones are intended to be adjusted so that if PAHC is not successful with the initial tax credit application, after consultation with, and consent of, the City Manager, a second or third application can be made without PAHC being out of compliance with the DDA.

**Rents and Occupancy**

Once the project is fully operational, the use and occupancy of the apartments will be restricted by both a 55-year regulatory agreement from the tax credit program and by City regulatory agreements on the land and the housing. These agreements will restrict rental to very low and low-income households at rents that do not exceed 30% of gross monthly income for specific income categories within the general income limits. These income categories are forty, fifty and sixty percent of the County median income adjusted by household size. Forty and fifty percent of median income are considered very low-income and sixty percent is considered low-income. There will be units at these different rent levels within each bedroom and unit type. The podium levels flats will be fully handicapped adaptable per code requirements. There is one elevator from the garage to the podium. The second floor units and the two-story townhouse units will be accessed by stairs from the podium or the street. The units range in size from 560 square feet in the one-bedrooms to 1,100 square feet in the three-bedroom townhouses. The unit mix and rent categories with 2001 proforma rents are shown below; actual rents may change somewhat by the time the
project is finished due to changes in the County median income or in the tax credit program regulations:

<table>
<thead>
<tr>
<th>Oak Court Apartments – Unit Mix and Rental Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rents as a Percent of Median Income</strong></td>
</tr>
<tr>
<td>40% Rents</td>
</tr>
<tr>
<td>50% Rents</td>
</tr>
<tr>
<td>60% Rent</td>
</tr>
<tr>
<td>Manager’s Unit in Historic House</td>
</tr>
<tr>
<td><strong>Total Units</strong></td>
</tr>
</tbody>
</table>

Tenants incomes will be certified as eligible upon initial occupancy and annually thereafter. Adjustments in the rent structure can be made, as allowed by the tax credit program, so long as the affordability requirements submitted in the tax credit application, and approved by TCAC, are met. Due to the anticipated high demand for these units, the City and PAHC agree to administer a preference for households of which at least one adult lives, or works, within the City limits. This is the same preference that is used for the Below Market Rate housing program and is used by PAHC in most of its developments.

**Pine Street House**

PAHC owns a single family home located at 1259 Pine Street, near Rinconada Park. The house is a modest 3 bedroom, 2-bath home on an 8,100 square foot lot. In 1980, the house was donated to the City and moved to this City-owned lot at an out-of-pocket cost to the City of about $60,000. In August 1980, Council approved an agreement with PAHC whereby the City transferred ownership of the property to PAHC, for a below market purchase price $38,000, for use as affordable rental housing. PAHC has rented the house since 1980 in compliance with that agreement. In 1993, PAHC refinanced the house, with the City’s consent, and constructed certain improvements, including the second bath, to make the home more suitable for shared living. Currently, two single parent households share the house. PAHC will work with the current tenants, so that, if and when the sale of the house occurs, the tenants will have adequate notice and preference options for other PAHC housing.

As part of its submittal in the RFP competition, PAHC proposed selling the house on the
open market and using the proceeds to help fund the Oak Court project. At that time, PAHC estimated that up to $1 million could have been realized from the sale. Staff agreed with PAHC that those assets could be more effectively utilized in the development of the Oak Court project. However, since early 2001, the real estate market has fallen and PAHC’s real estate advisors consider $625,000 a more realistic estimate of net proceeds (after a sales commission, escrow fees, and repayment of the $28,000 balance on the existing bank mortgage). PAHC has agreed to contribute the $625,000 from its own corporate assets, if necessary, for use during construction of Oak Court so as to allow flexibility to sell the house at the most favorable real estate market. Should the actual net proceeds exceed $625,000, PAHC will pay that excess, up to a maximum of $375,000, to the City and that sum will be applied as a one-time principal payment against the City’s $1.96 million development loan. The original 1980 Pine Street agreement must be amended to implement this agreement. That agreement includes a City right to purchase the property for $1 and a required repayment to the City of the $25,000, plus a Consumer Price Index inflation factor. These provisions must be waived to implement the DDA. The $25,000 figure represented the City’s costs that had not been recouped by the 1980 sales price.

Tax Credit Program Changes
The State agency (the California Tax Credit Allocation Committee (TCAC)) that allocates the low-income housing tax credits published proposed revisions to its regulations and point scoring for 2002 in December. The TCAC is meeting on January 30, 2002 to act on the proposed changes. Some of the revisions appear beneficial to the Oak Court project and should improve the potential point score of PAHC’s application. However, one proposed change would force PAHC to either reduce the amount of tax credits utilized or sacrifice five points. Reducing the tax credits would mean that additional subsidies would be needed from another source or some units would have to be rented for higher amounts so that the project could carry a larger bank loan. Giving up the five points could harm PAHC chances in the competition for funding.

Even if TCAC does not adopt the objectionable revisions, the tax credit program competition has been difficult and unpredictable for many years. Securing tax credits for family rental projects is much more problematic than for the projects in other categories such as “at-risk” preservation projects like the Sheridan Apartments, or single room occupancy projects such as Alma Place. In Santa Clara County, the program competition has become particularly difficult due to the cap placed by TCAC on the total credits awarded to larger counties in the State. Because there is such a high level of low-income housing development throughout the county, there is often far more demand for the credits from projects located within the county than there is supply under the State cap. If PAHC is unsuccessful with the competitive tax credit program, the project can be restructured under an alternative program that utilizes tax-exempt bonds and the lower, but noncompetitive, four-percent tax credits. This latter program is how the Palo Alto Gardens project was financed. Its disadvantages are that higher rents must be charged due to lower subsidies
from the tax credits and the high transaction costs of issuing the bonds. If this alternative becomes necessary, the DDA would have to be renegotiated.

RESOURCE IMPACT

City Expenditures for Oak Court Project

The funds for the City’s $1.96 million loan for development costs will be appropriated from the Commercial Housing In-Lieu Fund (Commercial Fund) which is specifically intended to create new rental work-force housing such as this project. The Commercial Fund has an available balance of $1,979,814 as of January 25, 2002. Approximately $325,000 in housing fees will be collected later this fiscal year from commercial projects currently under construction. The $3,008,845 expended by the City in July 2000 for the purchase price of the option on the housing site also was taken from the Commercial Fund. Additionally, the City expended $475,000 from the Commercial Fund to reimburse SummerHill for land clearance costs. Therefore, the expected total direct costs to the City of this project are:

$1,960,000 Development Loan
$3,008,845 Land Purchase Cost
$475,000 Site Clearance
$143,000 Property Holding and Clearance

$5,586,845 Total Direct Costs to City for Oak Court (or about $105,400 per unit)

The BAO appropriates $143,000 for property holding and clearance costs that are the City’s responsibility under various agreements. According to the provisions of the Development Agreement, beginning with the second year of the option, the City must reimburse SummerHill for property holding costs of the housing site. SummerHill has informed staff that the real property taxes (equal to about $108,000 for FY 2001-02) are the only costs for which reimbursement will be requested from the City. The BAO will appropriate the funds to reimburse SummerHill for the property taxes paid on the site. Funds are also being appropriated to cover expected closing costs, primarily title insurance, when the City exercises its site option. The City had also committed to providing the housing developer with a clear site for construction. As part of that commitment, the City agreed to remove and relocate to an off-site location an existing Coast live oak tree presently growing in the center of the housing site. The potential cost of removal, transporting and replanting the tree is estimated at up to $30,000. Staff anticipates that the oak can be relocated to the SOFA neighborhood park site.

The $143,000 for property related costs is being appropriated from the Residential Housing In-Lieu Fund because the current balance of the Commercial Housing In-Lieu Fund is insufficient to cover the full $2,103,000 needed for both the development loan and the property costs. $1,462,624 is available in the Residential Fund as of January 25, 2002.
The financing package assembled by PAHC, together with costs funded directly by the City, for development of the apartments is described below. Some figures are still estimates:

- Cal Fed Bank – 1st Mortgage (estimated) $2,726,200
- Investor equity (Low Income Housing Tax Credits - estimated) $7,967,500
- Affordable Housing Program (subsidized loan & grant) $270,000
- Housing Trust of Santa Clara County (deferred loan) $400,000
- Shared Ramp Funding ($522,000 estimated currently; grant) $600,000
- PAHC (Sponsor Equity) $100
- PAHC Equity (from sale of Pine Street) $625,000
- PAHC – Deferred Developer Fee Loan (deferred payment) $200,000
- City of Palo Alto – Development Loan (deferred payment) $1,800,000
- City of Palo Alto – Development Loan – portion for infrastructure $160,000

Sub-total for PAHC’s Development Budget $14,748,800
Development Cost Per Unit (53-units): $278,279

Other City Assistance
- City of Palo Alto - Land Contribution Value - 1.23 acres $5,874,000
- City of Palo Alto – Demolition, House Removal (paid Feb. 2001) $475,000
- City of Palo Alto – Property Holding, Clearance (this BAO) $143,000
Sub-total: $6,492,000

Total Project Funding $21,240,800
Total Cost Per Unit (53-units): $400,770

Staff was concerned about the relatively high costs of this project both in terms of the cost per unit (with and without the land value) and the amount of the City’s subsidies. Early last year, an analysis of PAHC’s proposed development budget was made in evaluating the responses to the RFP. The other developer’s proposed budget was similar to PAHC’s when compared on a cost per unit basis. In negotiating the City loan amount and terms, staff conducted further analysis of PAHC’s current development budget and sources of funding, especially the bank loan. Staff consulted informally with Keyser Marston Associates (the City’s consultant for the redevelopment project) and with staff at the San Jose Department of Housing. Additionally, extensive discussions were held with PAHC and its financial consultant. There are several components and features of this project that contributed to its cost. The primary cost factors are: land values, underground parking with mechanical ventilation, separate buildings with special architectural features for neighborhood compatibility, preservation of the historic house, and compliance with the same City development standards that apply to market-rate housing.

In terms of the financing package, PAHC was fairly conservative in its calculations of the size of the bank loan that the project could carry, both in estimating its operating costs and
in underwriting the loan. If a larger mortgage could be carried, less funding would be needed from the City. However, too high a mortgage could put the project at risk in the long term, if rents do not meet expectations or operating expenses are higher than planned. PAHC will be refining its budget as it prepares its construction plans and proceeds through the bidding process and negotiations with the contractors. The final amount of the permanent bank loan will be set when all costs are finalized and confirmed. PAHC has committed to increasing the amount of the permanent bank loan, if possible and prudent.

Staff concludes that PAHC’s cost estimates are as accurate as possible at this stage in the process. Staff will be reviewing the final cost budget and analysis, both prior to the start of construction and after completion. PAHC must do a formal audit of all uses and sources of development funds for tax credit purposes; staff will review this document. Should the final project funding exceed documented costs after completion and occupancy, the excess must be paid to the City as a one-time principal payment on the development loan. Without considering the land contribution, the City’s development loan of $1.96 million is comparable to our subsidies for other recent affordable housing projects such as Alma Place and the Sheridan Apartments. Even with the City’s direct costs for land included, the total direct subsidy cost of $105,400 per unit is still within the range of City subsidies for previous housing projects. On the whole, staff is satisfied that the development costs, financing package and City funding is reasonable.

**POLICY IMPLICATIONS**
The actions recommended in this report implement existing City policies and implement previous Council actions including purchasing the site option and selecting PAHC as the developer to construct a lower-income rental housing project on the site.

**TIMELINE**
PAHC is preparing an application to the housing tax credit program for submittal in the first round of 2002 competition, which is due March 26, 2002. Staff will return to Council before March 26 for approval of the amended Pine Street agreement, the regulatory agreements and other legal documents for the City’s loans. If PAHC is successful in the first round, construction will start in the early autumn of 2002, with occupancy by the end of 2003. Tax credit program regulations require that construction begin within 150 days of the date of the tax credit reservation. To meet this deadline, PAHC must prepare construction drawings, conduct value engineering and the subcontractor bidding process while the tax credit application is under review. If PAHC is unsuccessful in the first tax credit round, another application can be made in the second and final 2002 round for which applications are due on July 24, 2002. If PAHC received a second round award, construction would start in spring of 2003, with completion in early 2004.

Since success in each funding round is, in large part, related to the level of competition from other Santa Clara County projects, the results of the second round could be quite different than the first one. The DDA requires PAHC to provide the City with an
explanation if the first tax credit application is unsuccessful and to evaluate chances of future success. The City Manager must consent to subsequent tax credit applications or to an alternate financing plan. If PAHC concludes that the competitive tax credits are infeasible, then the project would most likely be restructured using the noncompetitive four percent housing tax credit program and a tax-exempt bond mortgage. This could be done in time for a mid-July 2002 application for a tax-exempt bond allocation or for an early 2003 application. In the worst case, a change in the project’s financing structure could result in a year’s delay (from summer of 2002 to summer of 2003) in the start of construction due to the probable timing of the application cycles of the different housing financing programs. A year’s delay in construction and the change to the tax-exempt bond financing would increase costs, necessitate higher rents and may require greater development subsidies.

ENVIRONMENTAL REVIEW
The proposed use and development of the Oak Court Apartments was evaluated as part of the certified Environmental Impact Report (EIR) for the South of Forest Area (SOFA) Plan. An Addendum to the certified EIR was prepared to clarify and confirm conclusions on site-specific issues that had been addressed in the EIR. The Architectural Review Board/Historic Resources Board considered the Addendum to the EIR as part of its review and approval of the project.

ATTACHMENTS
A. Budget Amendment Ordinance
B. Budget Amendment Ordinances Impacting Special Revenue Fund Reserves Approved-To-Date in 2001-02
C. Schedule of Performance
D. Disposition and Development Agreement

PREPARED BY: _________________________________________
Catherine Siegel, Housing Coordinator

REVIEWED BY: _______________________________________
LES WHITE
Interim Director of Planning and Community Environment

CITY MANAGER APPROVAL: ________________________________
EMILY HARRISON
Assistant City Manager

cc: Palo Alto Housing Corporation