TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT

DATE: JUNE 17, 2002

CMR:294:02

SUBJECT: APPROVAL OF AN AGREEMENT IN THE AMOUNT OF $75,000 WITH THE PALO ALTO HOUSING CORPORATION FOR ADMINISTRATION AND CONSULTING SERVICES FOR THE BELOW MARKET RATE HOUSING PROGRAM FOR FISCAL YEAR 2002 - 2003

RECOMMENDATION

Staff recommends that the City Council:

1. Approve and authorize the Mayor to execute the attached agreement with the Palo Alto Housing Corporation (PAHC) for administration and consulting services for the Below Market Rate (BMR) housing program for fiscal year 2002 – 03; and

2. Authorize the City Manager, or his designee, to administer the provisions of the agreement.

BACKGROUND

Under contract to the City, PAHC has administered the BMR housing program since its inception in the mid-1970s. The scope of services in the contract includes administering the sales and resales of BMR owner units, monitoring occupancy of BMR rental units, advice and consultation to the City regarding negotiations of BMR agreements with developers and special issues related the program as a whole.

PAHC performs most tasks associated with the ongoing operation of the BMR home ownership and rental components of the program. For the home ownership units, PAHC maintains, and annually updates, a waiting list of interested potential buyers. Typically, there are over 300 households on the waiting list to buy BMR units. PAHC also coordinates the sale of newly built BMR units and the resale of existing units. These activities include the selection and qualification of the buyer; coordination of the transaction
between the buyer, seller and lender; holding open houses; and informing buyers of the requirements of the deed restrictions. PAHC maintains a database and files on all units and keeps statistics on the number and characteristics of the households served by the program. Periodically, PAHC conducts monitoring of the 151 owner units in the program. Typical monitoring activities include reviewing assessor’s records to detect transfers in title or ownership and letters to owners to confirm continued residency in the unit. PAHC offers advice and referral to credit counseling services to BMR owners in financial difficulties. When a violation of the deed restrictions is discovered, PAHC undertakes initial attempts to remedy the situation. More complex enforcement matters are referred to the City Attorney for legal action.

Over the last two fiscal years, 63 BMR rental units have been completed and occupied in the Stanford West apartments. PAHC has been involved with the rent-up of the BMR units at Stanford West, training the on-site property management personnel and reviewing tenant qualifications. With the occupancy of Stanford West, there are now 101 rental units in the BMR program, located in five different apartment projects. In response to Council policy and direction, small rental and mixed-use projects are being approved and proposed with as few as one BMR rental unit. PAHC’s primary responsibility in the rental program is the determination of the eligibility of applicants and the recertification of existing tenants. The apartment managers prepare the certification documentation, which is then reviewed and approved by PAHC staff. PAHC also monitors each complex’s waiting list and tenant selection process.

PAHC also provides advice, consulting and special administrative services for the City on issues connected with the negotiation of BMR agreements or unusual problems related to the preservation of units in the BMR program. Special issues where PAHC has had an important role during the last year include the substantial repair assessments at Abitare and Redwoods condominiums and negotiations involving the BMR condominium unit at Ramona Court that is currently undergoing remediation for mold problems. Work on these matters will continue into 2002-03.

DISCUSSION
The BMR program workload for 2002-03 is expected to be similar to last year. Activity in the rental program is expected to continue at a relatively high level due ongoing requests for training from property management staff at Stanford West and the addition of BMR rentals in small mixed-use projects. Increased efforts at enforcement of occupancy and title rules for the ownership units are resulting in an increase in resales of older BMR owner units.

PAHC’s Board of Directors has expressed concern lately about PAHC’s exposure to liability and costly litigation from the performance of its regular duties administering the sale of BMR units. With the concurrence of City staff, PAHC is presently investigating the cost and availability of a separate insurance policy specifically covering its scope of services administering the BMR program for the City. Currently, PAHC is insured under a single, general commercial liability policy that covers all of its operations. This coverage,
while adequate, is structured more towards insuring PAHC’s rental property management operations and its housing development activities, rather than its unique role administering the BMR program. Staff has agreed to include the reasonable cost of a separate insurance policy as a reimbursable direct cost for this agreement, not to exceed $15,000. Staff will recommend to Council that additional funds be appropriated from the Residential Housing In-Lieu Fund during the mid-year budget adjustment process should the insurance premium cost not be able to be absorbed within the current $75,000 budget, as judged by the rate of expenditures during the first half of the 2002-03 fiscal year. The amended agreement and budget changes would need to be approved by Council.

**RESOURCE IMPACT**
The $75,000 cost of the agreement will be funded from the Residential Housing In-lieu Fund (Residential Fund). PAHC’s services are billed at its staff’s hourly billing rates on a time and material basis plus direct expenses such as printing and mailings. The volume of the workload, particularly the sales of BMR owner units, is difficult to predict. If the full amount of the contract is not expended, the remaining funds are returned to the Residential Fund. This fund has an approximate balance of $1,500,000 as of June 1, 2002. The Residential Fund is composed primarily of fees received from housing developers, in-lieu of the provision of units, pursuant to Program H-20 of the Comprehensive Plan (the authority for the BMR program).

**POLICY IMPLICATIONS**
The recommendation in this staff report does not represent any change to City policies.

**ENVIRONMENTAL REVIEW**
The approval of an agreement for administrative and consulting services is not an action subject to environmental review under the California Environmental Quality Act.

**ATTACHMENTS**
A. Agreement Between the City of Palo Alto and the Palo Alto Housing Corporation For Below Market Rate Housing Program Administrative Services
B. Chart Titled: Below Market Rate (BMR) Program Contract Costs, Services and Accomplishments

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cc: Palo Alto Housing Corporation