



City of Palo Alto

City Council Staff Report

(ID # 10143)

Report Type: Action Items

Meeting Date: 6/3/2019

Summary Title: Approve Funding Request for Wilton Court

Title: Authorize and Approve \$1 Million From the Residential Housing In-Lieu Fund and \$9 Million from the Commercial Housing Fund for a Total of \$10 Million for the Development and Construction of the 100 Percent Affordable Housing Project at 3705 El Camino Real; and Approve Budget Amendments in the Residential Housing In-Lieu Fund and the Commercial Housing Fund

From: City Manager

Lead Department: Planning and Community Environment

Recommendation

Staff recommends that the City Council approve a \$10 million loan to Palo Alto Housing Corporation for the predevelopment and construction of an 100% affordable housing project at 3705 El Camino Real, including:

- 1) Amend the Fiscal Year 2019 Budget Appropriation Ordinance for:
 - a) the Residential Housing In-Lieu Fund by:
 - i) Increasing Grants and Subsidies in the amount of \$1,000,000; and
 - ii) Decreasing the Ending Fund Balance in the amount of \$1,000,000;
 - b) the Commercial Housing Fund by:
 - i) Increasing Grants and Subsidies in the amount of \$9,000,000; and
 - ii) Decreasing the Ending Fund Balance in the amount of \$9,000,000;
- 2) Authorize the City Manager or designee to negotiate and execute a Loan Agreement, Regulatory Agreement, and related documents necessary to implement Council direction in a form substantially similar to prior agreements approved by the City.

Executive Summary

On January 14, 2019, the City Council unanimously approved Palo Alto Housing (PAH) proposal to construct 59 units of affordable rental housing units, of which one unit would be exempt for an on-site manager's unit ([CMR 9917](#)). Rents for the 58 restricted units would be affordable to

those with incomes between 30% and 60% of Area Median Income (AMI). As of May 2019, for a family of two at 60% AMI, the household's income cannot exceed \$70,260. Of the total 59 units, 21 of the units will be reserved for adults with developmental disabilities. Given the deep affordability of the project, the PAH is requesting financial assistance from local, State and Federal governments, including \$10 million from the City of Palo Alto's Residential Housing and Commercial In-Lieu funds.

Background

In April 2018, the City Council adopted the Affordable Housing Combining District ([CMR 8966](#)) which enabled 100% affordable, multi-family housing projects located within half-mile of major transit stops or quarter-mile from a transit corridor to utilize the development standards of an Affordable Housing Combining District (AHCD). The AHCD allows commercial zoned parcels to submit 100% affordable housing projects and provides flexibility in development standards that enables density increases beyond the State Density Bonus Law. The AHCD allows increases in the maximum allowable floor area, a decrease of parking requirements, an increase from the 35-foot height limit to 50 feet and provides alternatives to the requirement for ground-floor retail.

The new zoning tool allowed PAH to apply for a mixed-used development combining two parcels at 3703-3705 and 3707-3709 El Camino Real. In addition, on January 14, 2019, Council adopted a provision to allow affordable housing projects to waive the requirement for the preservation of ground floor retail uses.

Discussion

On January 14, 2019, the City Council approved PAH's application to combine parcels, 3703-3705 and 3707-3709 El Camino Real, zone changes to apply the Affordable Housing Combining District to the site, and a waiver from the retail preservation requirement ([CMR 9917](#)). The rental apartments would include fifty-nine (59) apartments—56 studios and 3 one-bedrooms. Of the 59 apartment units, one (1) unit will be an exempt, unrestricted unit for an on-site manager. The project will include a community room with computer lab, management office, mailroom, bike storage, and building-associated services spaces. In addition, the project includes two levels of garage parking that would provide 50 residential parking spaces. The apartments would be affordable to households earning 30 to 60% AMI. Twenty-one (21) of the units will be restricted for adults with developmental disabilities.

Loan Agreement

The recommendation for funding acknowledges the mutual interest of the City and PAH to develop affordable housing. In recent years the City has included provisions in affordable housing loans making them entirely forgivable upon maturity if the projects are affordable in perpetuity. This provision of forgiveness will be in the proposed Loan Agreement which details

the terms of the City’s \$10,000,000 loan. The loan will be supported by a Promissory Note and Deed of Trust secured by the property. The Note will bear simple interest at 3% per annum and payments will be made from any residual receipts beyond the project’s net operating income expenses. Payments will be divided among funding agencies with the City receiving its proportionate share based on its funding to total development costs. No interest will accrue, and no payments will be required until after the project is constructed and occupied. The proposed project will be affordable to extremely low and low-income households, and the affordability restrictions or Regulatory Agreement and Declaration of Restrictive Covenants will be in place for a minimum of 55 years after the issuance of a certificate of occupancy.

Rents and Occupancy of the Apartments

The maximum rent for each household will be based on 30% of household income, not to exceed 60% AMI. For a household of two in a 1-bedroom unit at 60% AMI, the maximum household income as of May 2019, would be \$70,260. Given the project will be subject to tax credit rent limits, the rent will not exceed 30% of income or \$1,647. PAH proposed rents comply with affordability requirements as shown below in Table 1 and in detail in Attachment A. The mix of unit types and expected rents is shown in Table 1 below. Given the mission of PAH to provide affordable housing rentals, the project relies entirely on public funds to be developed. One major funding source that will help the construction of the project is the federal Low-Income Housing Tax Credit (LIHTC) administered by the California Tax Credit Allocation Committee (CTCAC).

Table 1: Unit Mix and Rent for Wilton Court Apartments

Affordability	Household Size	Number of Units	Type	Rental Amount with Utility Allowance
30% AMI	1	16	Studio	\$659
50% AMI	1	17	Studio	\$1,124
60% AMI	1	23	Studio	\$1,357
60% AMI	2	2	1 bedroom	\$1,442
Exempt	2	1	1 bedroom	Exempt
Total		59		

According to the applicant, the project will cost approximately \$46,127,456 to be developed. Attachment B is the project’s development proposed financing, which lays out the uses, sources, and the total gap financing needed for the project. The table below assumes that \$16,600,000 in tax credits will be awarded to the project. To succeed in the competition for the LIHTC, PAH needs to emphasize housing for extremely low-income and low-income households.

The project’s proposed rent categories and income limits may change somewhat by the time the project is constructed and ready for occupancy due to changes in the County median income.

Per LIHTC application eligibility requirements, the development must provide at least 40 percent of the residential dwelling units to households whose income does not exceed 60% AMI; the entitled project is within compliance as 100% of the project will be restricted to household’s income under 60% AMI. The project will apply in a non-competitive application for tax-exempt 4% tax credits. If approved for the 4% tax credits, the tax credit can provide 30% of the cost of the project.

The City has approximately \$5 million in the Residential Housing In-Lieu Fund and approximately \$9 million in the Commercial Housing Fund. If the loan is approved by City Council, staff will amend the budget to allocate \$1 million from the Residential fund, and \$9 million from the Commercial fund to provide a total of \$10,000,000 to assist with the development of 3705 El Camino Real.

The development cost for each unit is \$781,821. The City’s \$10 million loan is equivalent to providing \$169,492 per unit in exchange for 58 deed restricted units of affordable housing. PAH will leverage City funds for other public funding, estimated and detailed in the table below.

PAH estimates the overall development cost for the 59-unit Wilton project to be \$46,127,456 in which PAH plans to assemble a financing package to fund the project as shown below, using the City funds as leverage for other public funds.

Permanent Sources of Funds for Construction

Low Income Housing Tax Credits	\$	16,624,706
State of California MHP Funding	\$	10,771,936
City of Palo Alto	\$	10,000,000
County of Santa Clara – Developmental Disabled Funding	\$	4,000,000
Permanent Construction Loan	\$	2,480,814
Sheridan Affordability Reserve Account ¹	\$	2,250,000
TOTAL PROJECT FUNDING	\$	46,127,456

¹ Council passed CMR 8105 that amended the Promissory Note Amendment No. 1, to Amendment No. 2, which revised the use of the Affordability Reserve Account (ARA). The revision enabled PAHC to use ARA funds on new construction or rehabilitation of affordable housing by 2030. Details of the Sheridan ARA are included in the Informational Report dated June 3, 2019 that will be provided as a late packet item on May 30, 2019.

TOTAL COST PER UNIT: \$ **781,821**

City's Contribution

Commercial and Residential Funds \$ 10,000,000
(Commercial \$9M)
(Residential \$1M)

TOTAL CITY FUNDING PER UNIT \$ **169,492**

Given the complexity of funding affordable housing project, strategic financing is needed. City's funding support will be used as leverage to apply for other sources. There is adequate funding in the Affordable Housing Fund to continue the City's history of supporting affordable housing.

Palo Alto Housing would like to secure City funding in order to apply for County and State funding.

The following is an estimate of the project's funding timeline:

City's Funding Commitment	June 2019
Apply for County Funds	Summer
Apply for State Funds	Fall/Winter
Apply for Tax Credits	Spring 2020
Start Construction	Summer 2020
Completion of project	Winter 2021/2022

POLICY IMPLICATIONS

The actions recommended in this report implements the City's adopted 2015-2023 Housing Element policies and programs supporting the development of low-income housing.

Attachment C describes many of the policies and programs that the Wilton Court Apartments will fulfill under the Housing Element. Policy H2.1 calls for diverse, affordable and mixed income housing to support the City's fair share of the RHNA allocation. Whereas, notably, Program 2.1.9, calls for Housing Inventory Site identified in the 2015-2023 Housing Element for zoning changes--to encourage the consolidation of smaller lot to facilitate the development of affordable housing. Program 2.1.9 has been codified in Palo Alto Municipal Code, 18.42.140 that has provided additional incentives for the developers. In addition, each Housing Inventory Site suggested in the Housing Element identifies a suggested yield and recently, reinforced by state law. A more detailed review of the conformance of the project with Housing Element policies is presented in Attachment C.,

Senate Bill No. 166 (SB 166), prohibits the City from reducing, requiring, or permitting the reduction of the density (yield) on sites identified in its Housing Element unless the City produce findings that supports this reduction. This development site, 3705 and 3707 El Camino Real, is identified in the City’s Housing Element as an opportunity site for six (6) and three (3) units, respectively. Through the combination of parcels, 3703-3705 and 3707-3709 El Camino Real, the development has exceeded the suggested yield, with the entitlement of 59 units.

State Housing Element law requires that localities provide for their Regional Housing Needs Allocation (RHNA) or “fair share” of the region’s housing need. The Association of Bay Area Governments (ABAG) determined that Palo Alto’s projected need for the period from January 1, 2014 – October 31, 2022 will be 1,988 units, of which 374 units are presently unmet need in the low-income category. This project will provide 58 of the 59 units to households below 60% of the AMI, considered low-income, which will help the city address the State requirements to assist in meeting housing needs of this population of the low-income category.

The proposed project is a 100% affordable housing project and will serve individuals who are earning 30 to 60% of the area median income, many of whom commute to the city to work in service and unable to afford market rents. Council has directed preference for those who work and live in Palo Alto for the affordable units. This can help alleviate traffic conditions and promote living and working in the community.

Resource Impact

If approved, the project will receive \$10 million from the City’s Commercial Housing Fund (\$9 million) and Residential Housing In- Lieu Fund (\$1 million) towards the construction of the project. The remaining balance of the Commercial Housing Fund will be \$735,393 and \$4,076,736 for the Residential Housing In-Lieu Fund for a total balance of \$4,812,129.

Due to the need for funding commitment from the City in Fiscal Year 2019 and FY 2019 ending on June 30, 2019, staff will likely request reappropriation of the above funding from FY 2019 to FY 2020 during the annual reappropriation process, so it is available for disbursement in 2020.

Timeline

Staff will work with PAH to execute loan documents and release funds, if approved by City Council.

Environmental Review

Review and submittal of the attached report and the approval of the loan and related financing regulatory documents are exempt from the California Environmental Quality Act (CEQA).

Attachments:

Attachment A -Wilton Court- Cash Flow Projection (PDF)

Attachment B - Wilton Court- Project Summary Sources and Uses(PDF)

Attachment C - Housing Element Applicability for Wilton Court_Attachment (DOCX)

Wilton Court, Palo Alto - 4% Credits

PROJECT DATA																																			
LAND Acreage 0 acres Density 126 units/acre # of Stories 4 Total - 3 residential levels over 2-level, half-submerged podium	UNIT TYPES <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: center;">Studios</td> <td style="text-align: center;">Rental Range</td> <td style="text-align: right;">56</td> </tr> <tr> <td></td> <td style="text-align: center;">1-Bedroom</td> <td style="text-align: center;">\$658 - 1,356</td> <td style="text-align: right;">2</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">\$1,442</td> <td></td> </tr> <tr> <td colspan="3" style="text-align: right;">TOTAL AFFORDABLE UNITS</td> <td style="text-align: right;">58</td> </tr> </table>				Studios	Rental Range	56		1-Bedroom	\$658 - 1,356	2			\$1,442		TOTAL AFFORDABLE UNITS			58																
	Studios	Rental Range	56																																
	1-Bedroom	\$658 - 1,356	2																																
		\$1,442																																	
TOTAL AFFORDABLE UNITS			58																																
BUILDING Residential Units 22,223 sf Circulation and Common 17,182 sf Commercial/Childcare - sf Garage 18,275 sf Total Building Area 57,679 sf	AFFORDABILITY <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="4" style="text-align: center;">Household Income Range</td> </tr> <tr> <td style="width: 60%;">30% AMI</td> <td style="width: 30%;">1 Person \$27,930 to 3 Person \$35,910</td> <td></td> <td style="text-align: right;">16</td> </tr> <tr> <td>40% AMI</td> <td>1 Person \$37,240 to 3 Person \$47,880</td> <td></td> <td style="text-align: right;">0</td> </tr> <tr> <td>50% AMI</td> <td>1 Person \$46,550 to 3 Person \$59,850</td> <td></td> <td style="text-align: right;">17</td> </tr> <tr> <td>60% AMI</td> <td>1 Person \$55,860 to 3 Person \$71,820</td> <td></td> <td style="text-align: right;">25</td> </tr> <tr> <td></td> <td>Manager's Unit</td> <td></td> <td style="text-align: right;">1</td> </tr> <tr> <td colspan="3" style="text-align: right;">TOTAL UNITS</td> <td style="text-align: right;">59</td> </tr> <tr> <td colspan="3" style="text-align: right;">AVERAGE AFFORDABILITY</td> <td style="text-align: right;">49%</td> </tr> </table>			Household Income Range				30% AMI	1 Person \$27,930 to 3 Person \$35,910		16	40% AMI	1 Person \$37,240 to 3 Person \$47,880		0	50% AMI	1 Person \$46,550 to 3 Person \$59,850		17	60% AMI	1 Person \$55,860 to 3 Person \$71,820		25		Manager's Unit		1	TOTAL UNITS			59	AVERAGE AFFORDABILITY			49%
Household Income Range																																			
30% AMI	1 Person \$27,930 to 3 Person \$35,910		16																																
40% AMI	1 Person \$37,240 to 3 Person \$47,880		0																																
50% AMI	1 Person \$46,550 to 3 Person \$59,850		17																																
60% AMI	1 Person \$55,860 to 3 Person \$71,820		25																																
	Manager's Unit		1																																
TOTAL UNITS			59																																
AVERAGE AFFORDABILITY			49%																																
PARKING # of spaces 41 parking ratio 1 type Concrete Podium																																			
TOTAL DEVELOPMENT BUDGET																																			
ACQUISITION	total	per unit	per sq ft																																
Total Land Cost	\$ 3,300,000.00	\$ 55,932.20	\$ 57.21																																
Other Acquisition Costs (inc demo)	\$ 970,688.91	\$ 16,452.35	\$ 16.83																																
Relocation Costs	\$ 180,000.00	\$ 3,050.85	\$ 3.12																																
<i>Total Acquisition Costs</i>	\$ 4,450,688.91	\$ 75,435.41	\$ 77.16																																
HARD COSTS																																			
Construction/Rehabilitation	\$ 28,881,441.61	\$ 489,515.96	\$ 500.73																																
Environmental Contingency	\$ 300,000.00	\$ 5,084.75	\$ 5.20																																
Site Work	\$ 437,769.00	\$ 7,419.81	\$ 7.59																																
General Contractor Overhead & Profit	\$ 3,511,897.46	\$ 59,523.69	\$ 60.89																																
<i>Total Hard Costs</i>	\$ 33,131,108.07	\$ 561,544.20	\$ 574.41																																
SOFT COSTS																																			
Architectural	\$ 1,254,465.00	\$ 21,262.12	\$ 21.75																																
Survey & Engineering	\$ 502,000.00	\$ 8,508.47	\$ 8.70																																
Construction Interest + Fees	\$ 2,505,570.67	\$ 42,467.30	\$ 43.44																																
Financing & Syndication	\$ 186,178.73	\$ 3,155.57	\$ 3.23																																
Local Permits and Fees	\$ 590,000.00	\$ 10,000.00	\$ 10.23																																
Legal Fees	\$ 100,000.00	\$ 1,694.92	\$ 1.73																																
Developer Fee/Add'l Contingency	\$ 2,500,000.00	\$ 42,372.88	\$ 43.34																																
Reserves	\$ 234,944.61	\$ 3,982.11	\$ 4.07																																
Other Soft Costs	\$ 672,500.00	\$ 11,398.31	\$ 11.66																																
<i>Total Soft Costs</i>	\$ 8,545,659.01	\$ 144,841.68	\$ 148.16																																
TOTAL DEVELOPMENT COSTS	46,127,456	781,821	800																																
PROJECT FINANCING																																			
CONSTRUCTION SOURCES	per unit																																		
Construction Loan	\$ 25,527,047.39	\$ 432,661.82																																	
Tax Credit Investor Proceeds	\$ 1,662,470.60	\$ 28,177.47																																	
County 2019 Funding for Developmentally Disabled (est.)	\$ 4,000,000.00	\$ 67,796.61																																	
City of Palo Alto - to be secured Spring 2019	\$ 10,000,000.00	\$ 169,491.53																																	
Gap Source	\$ 2,604,387.29	\$ 43,406.45																																	
	\$ -	\$ -																																	
<i>Total</i>	\$ 43,793,905.29	\$ 741,533.88																																	
PERMANENT SOURCES																																			
Perm Loan - A Tranche	\$ 2,480,813.50	\$ 42,047.69																																	
Perm Loan - B Tranche	\$ -	\$ -																																	
Tax Credit Investor Proceeds	\$ 16,624,706.03	\$ 281,774.68																																	
City of Palo Alto - to be secured Spring 2019	\$ 10,000,000.00	\$ 169,491.53																																	
County 2019 Funding for Developmentally Disabled (est.)	\$ 4,000,000.00	\$ 67,796.61																																	
	\$ -	\$ -																																	
Gap Sources - State of CA MHP, City of Palo Alto Additional Funds	\$ 13,021,936.46	\$ 220,710.79																																	
TOTAL DEVELOPMENT SOURCES	\$ 46,127,456.00	\$ 781,821.29																																	

Attachment C:

Wilton Court Apartments Housing Element

<p><u>Policy H2.1:</u> Identify and implement strategies to increase housing density and diversity, including mixed-use development and a range of unit styles, near community services. Emphasize and encourage the development of affordable and mixed income housing to support the City's fair share of the regional housing needs and to ensure that the City's population remains economically diverse.</p>	<p>The Wilton Court project was approved under the Affordable Housing Combining District (AHCD) which enables the project to increase density for 100% affordable housing project for 58 households and 1 on-site manager. The City has only permitted 5% of its lower income RHNA allocation.</p>
<p><u>Program H2.1.1:</u> To allow for higher density residential development, consider amending the zoning code to permit high-density residential in mixed use or single use projects in commercial area within one-half mile of fixed rail stations and to allow limited exceptions to the 50-foot height limit for Housing Element sites within one-quarter mile of fixed rail stations.</p>	<p>The Wilton Court project was approved at a higher density than its original zoning using the AHCD. being near a major transit stop.</p>
<p><u>Program H2.1.4:</u> Amend the Zoning Code to create zoning incentives that encourage the development of smaller, more affordable housing units, including units for seniors, such as reduced parking requirements for units less than 900 square feet and other flexible development standards.</p>	<p>The Wilton Court Apartments is composed of studios and 1 bedrooms only. Flexible standards were applied.</p>
<p><u>Program H2.1.9:</u> Amend the Zoning Code to create zoning incentives that encourage the consolidation of smaller lots identified as Housing Inventory Sites and developed with 100% affordable housing projects. Incentives may include development review streamlining, reduction in required parking for smaller units, or graduated density when consolidated lots are over one-half acre. Adopt amendments as appropriate. Provide information regarding zoning incentives to developers.</p>	<p>The Wilton Court Apartments has combined two parcels to provide affordable housing above suggested yield.</p>

Attachment C:

Wilton Court Apartments Housing Element

<p><u>Program H2.2.8:</u> Assess the potential of removing maximum residential densities (i.e. dwelling units per acre) in mixed use zoning districts to encourage the creation of smaller housing units within the allowable Floor Area Ratio (FAR) and adopt standards as appropriate.</p>	<p>The Wilton Court Apartments was approved under the AH Combining District which removes maximum unit density as a development standard entirely.</p>
<p><u>Policy H3.1:</u> Encourage, foster, and preserve diverse housing opportunities for very low-, low-, and moderate-income households.</p>	<p>The Wilton Court Apartments will increase the affordable housing stock with increase opportunities to household of very-low to low income households.</p>
<p><u>Policy H 3.4:</u> Pursue funding for the acquisition, construction, and rehabilitation of housing that is affordable to very low-, low-, and moderate-income households.</p>	<p>The proposed City funding will help fulfill the policy by funding affordable housing for very-low to low income households.</p>
<p><u>Program H3.1.12:</u> Amend the Zoning Code to provide additional incentives to developers who provide extremely low-income (ELI), very low-income, and low-income housing units, above and beyond what is required by the Below Market Rate program, such as reduced parking requirements for smaller units, reduced landscaping.</p>	<p>The Wilton Court project was approved under the AH Combining District which provided for a more permissive development standard in exchange for affordable housing such as relaxed density and height.</p>

Attachment C:

Wilton Court Apartments Housing Element

<p><u>Policy H4.2</u>: Support housing that incorporates facilities and services to meet the health care, transit and social service needs of households with special needs, including seniors and persons with disabilities.</p>	<p>Twenty-one (21) of the total number of units will be designated for persons with developmental disabilities, supporting the City's Policy H4.2 of providing housing that incorporates this need.</p>
---	---