

**TO: HONORABLE CITY COUNCIL**

**FROM: CITY MANAGER**

**DEPARTMENT: PLANNING AND  
COMMUNITY ENVIRONMENT**

**DATE: MARCH 3, 2003**

**CMR:168:03**

**SUBJECT: APPROVAL OF A BUDGET AMENDMENT ORDINANCE IN THE  
AMOUNT OF \$750,000 TO COMMIT FUNDS FOR HOUSING  
CONSTRUCTION COSTS FOR THE OPPORTUNITY CENTER  
FOR THE MID-PENNINSULA PROJECT ON ENCINA AVENUE**

**REPORT IN BRIEF**

The Opportunity Center facility, located on an 18,178 square-foot site at what is presently known as 33, 39 and 45-49 Encina Avenue, will include a day use and service center of about 8,100 square feet for homeless adults and families and 89 units of permanent and transitional housing. On July 22, 2002, the Council approved an agreement providing an interim loan of \$1,280,000 in Community Development Block Grant (CDBG) funds for predevelopment and site acquisition costs. In December, the Community Working Group (CWG) and the Housing Authority of the County of Santa Clara (Housing Authority) jointly submitted an application for \$750,000 in supplemental funding for housing construction costs. A City commitment of this additional funding is a critical component of the developers' March 18 application for State housing funds. Staff recommends that Council approve the attached Budget Amendment Ordinance (BAO) committing to \$750,000 in additional project funding from the Residential Housing In-Lieu Fund.

## **RECOMMENDATION**

Staff recommends that the City Council:

1. Approve the attached Budget Amendment Ordinance to appropriate \$750,000 in Residential Housing In-Lieu Funds for the Opportunity Center project to be provided in the form of a loan for housing construction expenses.
2. Direct the City Attorney to prepare necessary loan documents before transfer of any funds.
3. Authorize the City Manager to prepare and execute documents approved by the City Attorney that are required to demonstrate the City's commitment of funding for the Opportunity Center project necessary for the developers' application for State funding.

## **BACKGROUND**

Discussion of the history of the Opportunity Center project and the partnership between the Community Working Group, Inc. (CWG), the Housing Authority of Santa Clara County and Innvision to develop and operate the project was included in CMR:352:02 dated July 22, 2002. On that date, Council approved an interim funding agreement which provided the developers with a City loan of \$1,280,000 from CDBG funds for pre-development, site acquisition and pre-construction expenses.

On January 29, 2003, the Planning and Transportation Commission voted to recommend to the Council approval of a Planned Community (PC) zone application for the project. As recommended by the Commission, the Opportunity Center and Housing Project includes a 46,100 square-foot, 5-story mixed use building with a 8,100 square-foot drop-in service center for homeless individuals and families, 89 units of income-restricted rental housing, and 43 underground parking spaces on an 18,178 square-foot site at 33-49 Encina Avenue.

Complete legal control of the entire project site has now been achieved. CWG holds fee title to 33 and 39 Encina. The Housing Authority, utilizing its powers of eminent domain, secured control of 45-49 Encina under a court order of immediate possession that became effective in December 2002.

The prospects for securing the project's development funding improved significantly with the passage in November of Proposition 46, which authorized \$2.1 billion in general obligation bonds for affordable housing development and programs. The largest share of Proposition 46 funding authority (\$800 million) is allocated to State Housing and Community Development's existing Multifamily Housing Program (MHP) for rental housing construction. The State intends to conduct two MHP funding rounds per year over the next five years. Announcements of the first round of funding competitions for the MHP program were published in mid-January, with applications due on March 18.

## **DISCUSSION**

The Housing Authority and CWG have decided to seek \$5.5 million in MHP funding in the March funding round. If they are successful in the MHP competition, the developers will apply for an allocation of the 4%, non-competitive low income housing tax credits later in 2003. The MHP and tax credits are critical funding components, as together they make up about half of the project's estimated \$21 million development budget.

The Opportunity Center project should score well and be competitive for an award, as the MHP program selection criteria are currently structured. However, there is a significant amount of pent-up demand for affordable rental housing funding from projects such as Palo Alto Housing Corporation's (PAHC) Oak Court family project. PAHC sought, and failed to win, the 9% low income housing tax credits in the last two years. The Opportunity Center project will rank lower in the criteria that measure readiness and the commitment of all sources of funding compared to projects like Oak Court. Even though their private fundraising efforts are incomplete, the Housing Authority and CWG have decided to proceed at this time with the MHP application because program regulations and project selection criteria could change in a manner that would be unfavorable to this project.

Although PAHC will be applying in the March round for funding for Oak Court, unlike the tax credit competition, projects do not compete under a limited countywide funding cap. The ranking of projects for MHP funding is done on a statewide basis within general objectives to award at least 45% of funding to Southern California, 35% to Northern California and 10% to rural areas.

At the time the Council approved the \$1.28 million in CDBG funding, it was expected that the developers would apply for supplemental City funding. CWG had previously applied for \$2,215,000 in City funds in December of 2001, but staff recommended that only the \$1,280,000 in CDBG funds be granted until further progress was made on site acquisition and planning entitlements. The additional \$750,000 is being committed to the Opportunity Center project at this time; the funds will not actually be loaned to the developers until other development funding has been obtained and construction is scheduled to commence. The total \$2,030,000 for the project (\$750,000 in new housing funds plus \$1,280,000 in CDBG funds) will then be combined into one permanent, long-term City loan, secured by appropriate legal documents against the entire property. The current, interim City loan is interest-free, with no payments required during the pre-development period. It is a joint obligation of both CWG and the Housing Authority and is secured by a deed of trust on 33 and 39 Encina. Prior to the start of construction, or earlier if necessary, the three parties intend to enter into permanent agreements for financing, construction and long-term occupancy and operation of the facility. While the terms of the City's permanent loan have yet to be negotiated and are dependant upon the requirements of the other financing that is obtained to build the project, it is not likely that the City's funding will be repaid in the foreseeable future.

### **RESOURCE IMPACT**

The Residential Fund has a current available balance of approximately \$1.6 million; allocating \$750,000 to the Opportunity Center will reduce that balance to \$850,000. The current balance in the Commercial Housing In-Lieu Fund is about \$600,000; however, a fee payment of \$328,000 is expected soon. Thus, after funding the Opportunity Center, about \$1.8 million will still be available from the two housing funds combined for future housing development activities.

The Opportunity Center's financing is complex, involving multiple public and private sources, including at least six public entities and over nine different housing programs. The table below lists the current confirmed, and planned, funding for the projected \$21.3 million in development costs. The developers have decided that the project cannot manage to make ongoing payments on a bank mortgage and still maintain the extremely low rents affordable by the target population of formerly homeless households. Therefore, all permanent development funding is from grants, donations, and deferred payment loans.

Additionally, CWG is devoting a portion of its fundraising campaign to raising three million dollars for an endowment for the ongoing operating costs of both the rental housing and the service center. An operating reserve for the housing units would help bring rents down to more affordable levels. The service center endowment would help cover common costs such as utilities, maintenance and insurance, so that the service providers pay little or no rent to locate at the center. The development costs are allocated between the housing component and the service center as follows:

- \$3,834,000 18% Services Center
- \$17,466,000 82% 89-Housing Units

<b>Opportunity Center – Projected Funding Sources for Development As of February 2003</b>			
<b>Public Sources of Funding</b>	<b>Program</b>	<b>Amount</b>	<b>Status</b>
1) City of Palo Alto	CDBG	\$1,280,000	Under contract
2) City of Palo Alto	Residential Fund	\$750,000	Application recommended for approval by staff & CAC
3) County of Santa Clara	HOME	\$500,000	Under contract
4) County of San Mateo	HOME	\$300,000	Under contract
5) County of San Mateo	CDBG	\$150,000	Under contract

<b>Opportunity Center – Projected Funding Sources for Development As of February 2003</b>			
6) HUD Mc Kinney Act	Supportive Housing	\$400,000	Confirmed
7) State HCD	MHP	\$5,500,000	Applying on 3/18/03
8) California Debt Limit Allocation Committee	Housing Tax Credits – 4%	\$5,168,000	Will apply in summer of 2003 if MHP funds awarded
Total Public Sources		\$14,048,000.00	
<b>Private Sources of Funding</b>	--	<b>Amount</b>	<b>Status</b>
1) Packard Foundation	--	\$1,000,000	Received
2) Peninsula Community Foundation		\$750,000	\$500,000 received
3) Housing Trust of Santa Clara County	New Construction	\$500,000	\$150,000 confirmed; \$350,000 pending
4) Misc. Private Donations	--	\$700,000	Received
5) Major Donors Campaign	--	\$3,000,000	Tentative Commitments
6) Capital Campaign	--	\$1,300,000	Underway. Funds not yet committed.
Total Private Sources		\$7,250,000	
<b>TOTAL ALL SOURCES</b>		<b>\$21,298,000</b>	

### **POLICY IMPLICATIONS**

The actions recommended in this report implement existing City policies including furthering the Council's "Top Five" priority of affordable housing. These actions also implement the Council adopted HUD Consolidated Plan and the 2002-03 Annual CDBG Action Plan.

### **TIMELINE**

Below are the key milestones in the development process, assuming that the PC zone change is approved and the MHP funding application is successful. Should there be delays in the planning entitlements, or if the MHP application is unsuccessful, then the developers will need to reassess the timeline and the financing strategy. If these

milestones are not met, the construction start is likely to be delayed until the spring of 2004, at the earliest.

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|---|----------------|
| ▪ Control of entire site achieved                                     | December 2002  |
| ▪ PC Zone adopted by Council (assumed)                                | By March 2003  |
| ▪ Application for MHP (Proposition 46 funds) submitted                | March 18, 2003 |
| ▪ MHP awards  | June 2003      |
| ▪ Application for 4% housing tax credits                              | June 2003      |
| ▪ Building Permit Submittal   | Fall 2003      |
| ▪ Approval of housing tax credits                                     | September 2003 |
| ▪ Council action on permanent funding<br>& regulatory documents       | September 2003 |
| ▪ Close construction loan, Issue building permits, Start construction | April 2004     |
| ▪ Completion and occupancy  | February 2005  |

#### **ENVIRONMENTAL REVIEW**

City staff prepared a Draft Environmental Impact Report (DEIR) on the project. The DEIR was circulated for public comments from December 13, 2002 to January 13, 2003. The Commission held a public hearing on December 18, 2002 to receive public comments on the DEIR. On January 29, 2003, the Commission voted to recommend that the City Council certify the Final Environmental Impact Report.

#### **ATTACHMENTS**

Attachment A: Budget Amendment Ordinance

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DEPARTMENT

HEAD

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Office of Housing, County of San Mateo