



Agenda Report

22-882

Agenda Date: 11/1/2022

REPORT TO COUNCIL

SUBJECT

Action authorizing the City Manager to Negotiate and Execute an Amendment to the City's Loan Agreement with Monroe Street Housing Partners, L.P by an Increased Amount Not to Exceed \$3.0 Million to Upgrade Approximately 1,860 Lineal Feet of Water Main to Support the Construction of a Residential Affordable Housing Project at 2330 Monroe Street and Related Budget Amendment

COUNCIL PILLAR

Promote and Enhance Economic and Housing Development

BACKGROUND

The City issued a Request for Proposals (RFP) in 2018 for the development of an affordable housing project on the City-owned property located at the southeast corner of Monroe Street and San Tomas Expressway (2330 Monroe Street). Monroe Street Housing Partners L.P (Freebird) was selected as the Developer for the site through an RFP process and the Council approved an Exclusive Negotiation Agreement (ENA) with Freebird in December 2018 to allow the project to proceed. On January 28, 2020, Council approved land use entitlements and a Disposition and Development Agreement for the project. On September 2, 2020, the City amended its Development Agreement with Freebird to increase the City loan by \$1,500,000.

Under the Development Agreement, the developer will construct a 65-unit affordable housing project located at 2330 Monroe Street. The project includes 16 units at 25% Area Median Income (AMI) for Santa Clara's growing population of adults with developmental and/or intellectual disabilities, 48 units ranging from 50-80% AMI, and 1 manager's unit.

In February 2020, the City began using a hydraulic modeling service provided by HydroScience to evaluate the impacts of new development on the City's water distribution system. The hydraulic modeling evaluates the system water pressures and provides a report for any needed improvements to meet the development's water and fire demand needs while maintaining the system's minimum operating pressures.

On March 16, 2022, during the permit review process, based on the water and fire services requested for this development, the City determined that evaluation is needed to ensure that the integrity of the system is maintained and that adequate flows of water and pressure are provided during a fire event. The City then requested a Development Impact Analysis (DIA) to be performed using the hydraulic model.

On April 12, 2022, Freebird closed their construction financing and began construction.

On May 23, 2022, City staff returned results from the DIA on residential and development fire flow for

the 2330 Monroe Street development. The model determined that the City's existing water main would not support the fire suppression demand for the project if a fire were to occur during peak water usage times. Based on the model results, the consultant recommended that a water main upsize would be required for health and safety purposes and would need to be completed before the new housing could be occupied in Fall 2023. The water main upsize would not be needed without the development.

DISCUSSION

Staff is recommending that the City increase its contribution to this 100% affordable housing project to cover unanticipated additional infrastructure costs so that the project may proceed. Additional funding from the City's affordable housing funds will be used to pay for the construction of necessary infrastructure upgrades as described in the following discussion.

Scope of Work:

City staff have determined that the most cost-efficient scope of work requires replacing the existing 8-inch water main with a new 12-inch water main extending approximately 1,860 linear feet on Monroe Street from San Tomas Expressway to Scott Boulevard. See Attachment 1 for a map of the proposed project.

The scope of work includes trenching, hauling of materials, traffic control, filling the abandoned water main for long term stability, connecting existing properties to the new main, grading, paving, and striping. The water main improvement project will be required to use prevailing wage as the City is funding the improvement.

Freebird requested a preliminary cost estimate from CORE (general contractor) and Sanco Pipelines Inc. (subcontractor). On July 19, 2022, Sanco provided a cost estimate for \$2,946,022. City staff from the Departments of Water and Sewer and Public Works reviewed the estimate and suggested several ways to lower the cost including competitive bidding after the design is completed, removing the replacement of existing water services from the scope as those will simply be reconnected, and limiting the proposed water main alignment as close to the existing main as possible.

Funding Challenges:

Since this requirement was created after Freebird received its building permit and after it closed on tax credit and bond financing, Freebird does not have a source to pay for the water main upgrade required for the project. It should be noted that Freebird proceeded with closing on the financing for the project prior to its full understanding of the water main requirements that would be necessary to serve the project. Staff has worked extensively with Freebird to explore potential funding sources and concluded that the proposed City funding is necessary in order to continue the project. In the interim, Freebird is progressing with the project at their own risk in order to maintain their current contracts and meet financing deadlines.

Timing:

The housing project is expected to complete construction by October 2023. To ensure the building can be occupied once completed, the water main project would need to begin very soon due to the size of the scope of work and supply chain limitations. The water main project needs to move forward now so that the final occupancy can be achieved in the fall of 2023.

Term Sheet:

The City can increase its existing housing loan to fund this improvement. City staff have negotiated a term sheet with Freebird to amend the City's loan. The City's additional funds will not be disbursed until the borrower has utilized all other available sources of construction financing first. See Attachment 2 for the full-term sheet.

Next Steps

Freebird has signed a term sheet for the increase to the City loan for the water main upgrade. Freebird is currently preparing engineering drawings for the water main upgrade project. If the City Council approves the staff recommendation, staff will work with Freebird to execute an amendment to the existing city loan. Once the amendment to the loan agreement is executed and encroachment permits are issued, Freebird will begin work on the water main upgrade project.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(5) in that it is a governmental organizational or administrative activity that will not result in direct or indirect changes in the environment.

On January 28, 2020, the City Council approved a Mitigated Negative Declaration (MND) and the Mitigation Monitoring and Reporting Program (MMRP) for the proposed affordable housing project. While the upsized water main was not described in the MND, water main upsizing improvements are exempt from CEQA review pursuant to the CEQA Guidelines section 15303 (d) New Construction or Conversion of Small Structures.

FISCAL IMPACT

The City's loan amendment would enable Freebird to construct the required water main which would allow the affordable housing development at 2330 Monroe Street to be occupied in fall 2023.

If approved, the City's loan amendment of up to \$3.0 million would be drawn from the City's Affordable Housing Fund. The City's Affordable Housing Fund has an unrestricted fund balance of approximately \$3.3 million that can be utilized to fund this loan.

The approved loan amendment is reflected in the Budget Amendment below. It is anticipated that the loan amendment will be drawn in FY 2022/2023 and an appropriate carryover will be included in the upcoming Biennial Budget. As further defined in the attached Term Sheet, the City Loan [including unpaid accrued interest] shall be repaid by the Maturity Date, and by the payment of any project cost savings.

**Budget Amendment
FY 2022/23**

	Current	Increase/ (Decrease)	Revised
City Affordable Housing Fund			
<u>Expenditures</u>			
Monroe Water Main Upgrade	\$0	\$3,000,000	\$3,000,000
Unrestricted Ending Fund Balance	\$3,303,060	(\$3,000,000)	\$303,060

COORDINATION

This report was coordinated with the City Manager's Office, City Attorney's Office, Finance Department, and Water & Sewer Utilities Department.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>>.

RECOMMENDATION

1. Adopt a resolution, Attachment 3, authorizing the City Manager to negotiate and execute an amendment to the City's loan agreement with Monroe Street Housing Partners, L.P by an increased amount not to exceed \$3.0 million to support the construction of a Residential Affordable Housing Project at 2330 Monroe Street; to make modifications to the Loan Agreement and attachments consistent with the Term Sheet and as reviewed by the City Attorney for form and consistency; to execute all documents necessary to implement the Loan Agreement and close escrow; and
2. Approve the FY 2022/23 budget amendment in the City Affordable Housing Fund to appropriate \$3.0 million to the Monroe Water Main Upgrade and reduce the unrestricted ending fund balance (**five affirmative Council votes required for the use of unused balances**).

Reviewed by: Reena Brilliot, Assistant Director of Community Development

Reviewed by: Gary Welling, Director of Water & Sewer Utilities

Approved by: Rajeev Batra, City Manager

ATTACHMENTS

1. Map of Water Main Upgrade Project
2. DRAFT Term Sheet for the Amended City Loan
3. Resolution for Amendment #1 to Monroe Loan Agreement