



## Legislation Details (With Text)

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Date	Ver.	Action By	Action	Result
10/8/2019	1	Council and Authorities Concurrent Meeting	Approved	

## INFORMATIONAL REPORT TO HOUSING AUTHORITY

### SUBJECT

Update on project located at 2330 Monroe Street with Freebird Development Company, LLC: Status of Disposition and Development Agreement and Project Approvals

### EXECUTIVE SUMMARY

Following an extensive community outreach process, the City issued a Request for Proposals (RFP) for the development of an affordable housing project (Project) on the City owned property located at the southeast corner of Monroe Street and San Tomas Expressway (2330 Monroe Street). In December 2018, City Council approved an Exclusive Negotiation Agreement (ENA) with Freebird Development Company, LLC (Developer) to allow the Project to proceed. The Developer has been working with the City to process its entitlements and to negotiate the terms of a Disposition and Development Agreement. The purpose of this informational memo is to provide a summary of current activity and next steps leading to a Disposition and Development Agreement and Land Use Entitlements.

### BACKGROUND

The vacant City-owned parcel is located at 2330 Monroe Street at the southeast corner at the intersection of San Tomas Expressway and Monroe Street. The site adjoins the rear yards of eleven (11) single family residential properties to the east and south on Sheraton Drive and El Capitan Ave. Multifamily development is located to the north on the opposite side of Monroe Street. A new City park is located to the west on the opposite side of San Tomas Expressway.

### Land Use and Zoning

The site is currently zoned as Single Family (R1-6L). The land is designated as right-of-way on the General Plan Land Use diagram. Redevelopment of the site for new housing will subsequently require City Council and Planning Commission approvals of a General Plan

Amendment, Rezoning, Architectural Review and California Environmental Quality Act (CEQA).

### ***Community Feedback***

From the time City Council approved Freebird's development concept, the Developer has conducted four community outreach meetings in October 2018 (#1), November 2018 (#2), February 2019 (#3), and July 2019 (#4), each with 25-35 participants. Residents and businesses within a 1,000-foot radius of the project site received direct mailings notifying them of all community meetings for. In addition, everyone who attended a prior community meeting or contacted City staff or the developer by phone or email to inquire about the project received direct mailings and email invitations. Finally, all meetings were publicized on the City's email blasts and online forums. In all, approximately 75 people have attended at least one of the community meetings hosted by the Developer.

In response to community concerns about density and privacy, the proposed Project is a 65-unit multi-family building ranging from 2 to 3 stories in height. It will utilize several measures to mitigate proximity to single-family homes, including placing the building along San Tomas Expressway with a generously sized "All Abilities" play area, courtyard, and surface parking between the bulk of the building and the neighboring single-family homes. The proposal also includes an attractive privacy fence along the property line shared with the neighboring single-family homes.

In addition to privacy, another main concern raised through the community meetings was parking. As initially proposed, the Project included 75 parking spaces but has subsequently been revised to increase parking to 94 spaces, 3 electric vehicle charging spaces, and 1 paratransit loading space (a 1.5 space per unit ratio). Staff believes that ratio is sufficient, particularly given that nearly 50% of the units are studios and one-bedrooms, and 25% of the units will be occupied by persons with intellectual and developmental disabilities, many of which hold stable employment but do not own cars.

### **DISCUSSION**

This report provides a comprehensive status update on key elements of the Project, including the Project's entitlement process, site and architectural design, financing and affordability structure.

### ***Project Entitlements***

Following the submission of an application to the City in February 2019 for site rezoning, general plan amendment, and other related project approvals, the Developer met with the Project Clearance Committee in March 2019, July 2019, August 2019, and was finally deemed complete in September 2019. The proposed building has not changed significantly from the time concept drawings were presented during the ENA approval through today-the main changes have been to the parking lot layout, which allows for a more efficient fire truck turnaround, increased open space and additional parking spaces. As a result of the review process, City agencies have also required significant off-site improvements to Monroe Street including streetscape improvements and reconfiguration of the porkchop island at Monroe

Street and San Tomas Expressway to improve roadway safety.

Concurrent with the above, Environmental Science Associates, the environmental consultant for the project, has been working with the Planning Division and other City staff to complete the necessary environmental studies, and draft and publish the CEQA Final Initial Study/Mitigated Negative Declaration and Mitigation and Monitoring Report. The final study was published in September 2019 for a 30-day public comment period. In addition to typical construction-related mitigation measures such as air quality mitigation and protection of natural and archaeological resources, mitigation measures will include a noise performance standard for the operations of the building and the roadway safety modifications discussed above.

It is anticipated that the Project entitlements and associated approvals will be before the Planning Commission in November 2019 and be presented for Council consideration in December 2019 or January 2020.

### ***Site Plan and Design***

The Project involves the development of an approximately 74,000 square-foot building ranging in height from two to three stories containing 65 residential units in a mix of studios and one-, two- and three-bedroom units. Specifically, the project proposes 7 studio, 23 one-bedroom, 29 two-bedroom and 6 three-bedroom units. All units will be deed restricted for use by households at income tiers between 25-120 percent of area median income and 25 percent of the units will be reserved for intellectually and/or developmentally disabled persons. The project will also include on-site amenities such as a fitness center located on the second floor, a game room on the third floor, a laundry room and community room located on the ground floor, a patio with barbecue, a universal design (all abilities) outdoor play area, and garden beds for residents, along with additional landscaping and pedestrian trail around the site perimeter.

The Project site will be accessible from Monroe Street. The proposed 26-foot wide driveway will lead to the surface parking lot with a two-way drive aisle 26 feet wide. The surface parking lot will provide 98 parking stalls. In addition, the Project will provide 37 bicycle parking spaces.

Approximately 32,000 square feet of open space will provide area for active recreational uses, intended for use by building residents and guests. Included are a children's play area (separate play areas for ages 2-5 and 5-12), a landscaped and furnished park-like quiet area with half-size bocce court, recreational community gardens, a family picnic area, a fitness pathway with outdoor fitness equipment and a putting green (artificial turf).

### ***Financing***

The Project is in the process of securing the necessary funding. In total, there are six main potential sources of capital financing to be utilized for the Project as follows:

- **Low Income Housing Tax Credit Equity (LIHTC).** LIHTC is a limited partner equity

generated through 4% low income housing tax credits that serve as both construction and permanent financing. The net equity to the project is \$13,000,000, which is based on an 86% applicable fraction given that 14% of the units are above 80% AMI tax credit rents (recent federal and state LIHTC regulation changes allows for 80% AMI units to qualify for tax credits as long as the overall income average of tax credit units is 59% AMI). The amount of equity is based on the published July 2019 tax credit rate of 3.23% and a raise of \$1.00 on the dollar, which is similar to tax credit pricing on recent projects in the Bay Area post tax reform.

- **Tax Exempt Bonds** Tax exempt bonds in the amount of \$25,000,000 during construction and \$11,200,000 during the permanent period are the second source of financing. The tax-exempt bonds will be interest only and non-amortizing during construction. The projected construction term is 21 months with up to an additional 7 months to meet the permanent loan take-out requirements (conservatively assumes 10 units leased per month plus a stabilization period). The permanent loan amount is based a minimum 1.15 debt coverage ratio, and 40-year amortization (consistent with current terms in the market place). Interest rates are 4.50% during construction and 5.50% during the permanent period.
- **City of Santa Clara Residual Receipts Loan.** Developer is requesting a \$5,000,000 construction period and permanent residual receipts loan from the City of Santa Clara (\$77,000/unit), which is slightly higher than the \$4.9 million-dollar request considered in the original RFP Response. The current underwriting shows 2% interest on the loan, which can be repaid during the 55-year term of the loan using 3% income and 3% expense inflators. The 55-year cash flow shows that based on the City and County/State receiving 50% of the residual receipts on a pro rata basis, the loan will be repaid in Year 54 and, over that period, the City will receive roughly \$5,300,000 in interest on the loan in addition to the \$5,000,000 repayment of principal.
- **Santa Clara County Funds.** The fourth source of financing is \$3,200,000 in County funds under a new funding source for projects with set-asides for people with intellectual and developmental disabilities (I/DD). The loan has been structured as a 3% residual receipts loan with a 55-year term sized at \$200,000 per I/DD unit (16 units). The Developer is applying for this funding in August 2019 to get in the County's pipeline even though funding might not be awarded this round since entitlements are not in place yet.
- **State Multifamily Housing Program (MHP) Funds.** The fifth source of financing is \$5,500,000 in MHP funds. The State recently launched new funding for the MHP program, which they intend to award twice annually through an RFP process. The first round is currently underway with a second round expected to be released in January of 2020. The project will need entitlements in place to be competitive for the MHP funding. The loan has been structured as a 0.42% residual receipts loan (the State will reduce interest down to 0.42% for financial feasibility) with a 55-year term. To maximize points under the MHP scoring system, the City and County funds must equal at least 150% of the MHP funds;

therefore, the MHP loan has been sized at \$5,500,000. MHP funds have been structured as a permanent source only given State guidelines.

- **Deferred Developer Fee and Deferred Reserves.** The final source of financing is deferred costs including deferred developer fees and reserves. \$2,500,000 is anticipated to be deferred during construction with \$750,000 remaining deferred during permanent period to be repaid from residual receipts. \$750,000 is the amount that can be repaid during the first 10 years of operations per County guidelines.

The following is a summary of a potential financing structure:

<b>Project Funding - Permanent Sources</b>	
	<b>Amount</b>
Tax Credit Equity	\$ 13,000,000
Tax Exempt Bonds	\$ 11,200,000
City of Santa Clara Loan	\$ 5,000,000
County Loan	\$ 3,200,000
State MHP Loan	\$ 5,500,000
Deferred Developer Fee	\$ 750,000
<b>Total Sources</b>	<b>\$ 38,650,000</b>

### ***Affordability***

The Developer's proposal to provide housing for moderate-income, "workforce" households addresses the community's desire to create homes in the City for people who work in a variety of lower-paying jobs that provide key services to the community. The City's existing market rate rental housing is out of reach for many working families, including those supported by workers in public service, health care, education, retail, hospitality, and social services. While workers in the lowest-paid jobs (from minimum wage to 60% AMI) can apply for five-year wait lists for affordable housing, families in the 60% to 120% AMI range are excluded even from typical affordable housing. The following is a summary of the project's proposed affordability structure:

<b>Proposed Project Unit Mix</b>		
<b>Income</b>	<b>Total Units</b>	<b>Percentage</b>
25% AMI	16	25%
50% AMI	10	15%
60% AMI	13	20%
80% AMI	16	25%
100% AMI	9	14%
Manager	1	1%
<b>Total</b>	<b>65</b>	<b>100%</b>

A unique aspect of the Developer proposal is its set-aside of 25% of the units (16 units at 25% AMI) for Santa Clara's growing population of adults with developmental and/or intellectual disabilities. This provision would address a previously unmet goal of the City's 2014-2022 Housing Element: to collaborate with developers to create inclusive housing for people with developmental disabilities served by the San Andreas Regional Center.

### ***Project Transaction and Key Terms***

Key terms of the anticipated DDA include the following:

#### The Project:

2330 Monroe Street, an affordable rental residential development, is to be constructed on a 2.5-acre site at 2330 Monroe Street, Santa Clara, APN: 224-37-068 ("Site"). The development will contain approximately 65 affordable housing units.

#### Borrower:

Freebird Development Company, LLC, a California limited liability company ("Freebird"), or a limited partnership for which Freebird serves as administrative general partner.

#### Service Provider:

Housing Choices Coalition for Persons with Developmental Disabilities, Inc. ("Housing Choices Coalition") through a Memorandum of Understanding with Freebird and the San Andreas Regional Center. Funding for social services for the households with intellectual and/or developmental disabilities to be provided by the San Andreas Regional Center.

#### Unit Mix:

The unit mix includes 12% studios, 34% one-bedroom units, 45% two-bedroom units and 9% three-bedroom units. The Project will include a community room, property management and social services offices, an exercise room, a library/game room, onsite laundry, an All Abilities play area and an outdoor fitness path.

#### City Funding:

Up to \$5,000,000, subject to underwriting acceptable to the City of Santa Clara ("City").

#### Loan Term:

The Construction/Permanent Loan shall have a term commencing at the close of construction financing and ending fifty-five (55) years from the date the Project receives its certificate of occupancy (or equivalent).

#### Property Ownership and Ground Lease:

The City will retain fee ownership of the parcel through a ground lease. The City shall ground lease the Site to the Borrower for a term of fifty-five (55) years, or longer as may be required by the California Department of Housing and Community Development and/or the Project's senior lender or tax credit investor. The Construction/Permanent Loan shall be repaid on a residual receipts basis, with the City receiving a pro-rata share of fifty percent (50%) of the net cash flow of the Project, to be split proportionally with the County and, if applicable, the State, based on the proportionate amount of each public agency's financial contribution to the Project.

### ***Next Steps***

City staff and the Developer are working closely to document the transaction in a Disposition and Development Agreement (DDA); form of Ground Lease; Loan Agreement; Affordability Agreement and several other documents. The basic framework of these documents is outlined in this staff report.

The DDA documents the terms and conditions of the anticipated Project and for the conveyance of the property to the Developer. The draft form of Ground Lease and Loan Agreement will be attached to the DDA. These documents will control how the Project will be developed and the terms and conditions of the relationship between the City and Developer over a 55-year term. An Affordability Agreement will restrict AMI levels for the affordable residential units.

The Project entitlements are pending approval by the Planning Commission and will be brought forward for Council consideration together with a request to approve the DDA and other documents related to the property transaction.

It is currently anticipated that the 2330 Monroe Street project will be brought forward for Council consideration in December 2019 or January 2020.

### **ENVIRONMENTAL REVIEW**

The CEQA Final Initial Study/Mitigated Negative Declaration and Mitigation and Monitoring Report was published in September 2019 for a 30-day public review period.

### **COORDINATION**

This report has been coordinated with the City Attorney's Office.

### **FISCAL IMPACT**

There is no additional cost to the City to prepare this report other than administrative staff time and expenses. Third party costs associated with the negotiation and preparation of the Disposition and Development Agreement have been paid by the Developer from a deposit to the City.

### **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) <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

### **RECOMMENDATION**

Note and File the Informational Memo on the project located at 2330 Monroe Street with Freebird Development Company, LLC.

Reviewed by: Andrew Crabtree, Director of Community Development

Approved by: Deanna J. Santana, City Manager

### **ATTACHMENTS**

1. Project Site Plan
2. Project Rendering (1)
3. Project Rendering (2)

4. Exclusive Negotiation Agreement (ENA)
5. 2330 Monroe Street RFP and Community Report