



Agenda Report

22-1483

Agenda Date: 12/6/2022

REPORT TO COUNCIL

SUBJECT

Action on a Resolution Authorizing the City Manager to Execute an Amended and Restated Affordable Housing Agreement and Negotiate and Execute Loan Project Documents with Mainline North 701, L.P. for Construction of 151 Affordable Housing Units Located at 2310 Calle Del Mundo

COUNCIL PILLAR

Promote and Enhance Economic, Housing, and Transportation Development

BACKGROUND

The subject project, a 100% affordable 151 unit housing development at 2310 Calle Del Mundo (previously referred to as 2302 Calle Del Mundo), is one of several projects currently under development within the Tasman East Specific Plan area. Utilizing provisions within the City's Affordable Housing Ordinance, the City Council previously approved an Affordable Housing Agreement (AHA) allowing the consolidation of the affordable housing obligations from three Tasman East Specific Plan projects so that they are fulfilled through the development of the subject 100% affordable housing project. This approval was granted based on a determination that the 100% affordable housing project would better meet the City's Regional Housing Needs Allocation (RHNA) targets by providing units at deeper affordability levels (e.g., very low-income VLI and low-income LI units) compared to the moderate (Mod) income units otherwise produced through the City's Affordable Housing Ordinance inclusionary requirement. The City also concluded that the development of the 100% affordable project represented a greater value to the City in terms of the total amount of subsidy that would be invested in the project through a combination of developer contributions and outside funding.

Three iterations of the 2310 Calle Del Mundo project have been previously approved by the City Council with the most recent approved in October 2020. These iterations were necessary as the project proponents made adjustments to the project financing to make the project feasible. The original project developer, ZAEN Partners LLC (also known as Ensemble) have partnered with USA Properties -Mainline North 701, L.P., a for-profit developer of affordable housing, to implement the project.

DISCUSSION

USA Properties is now prepared to implement the most recent Affordable Housing Agreement and loan project documents approved by the City in October 2020. Staff have determined that documents attached to the Resolution 20-8897 approved by the City Council in 2020 need to be updated to clarify the terms of the loan. Specifically, an updated Term Sheet (Attachment 3 is needed to document the terms approved by the City Council. The applicant has also proposed to increase the level of affordability in the project to align with their outside funding requirements and has provided an updated pro forma document. Terms in the pro forma were discussed at the 2020 hearing but the

document was not included with the 2020 report.

Affordability

The current project does not change the total number of affordable units, but would increase the depth of affordability by moving the number of units affordable at the upper end of the Low affordability category (80% of Area Median Income or AMI) to lower income categories (e.g., 30% AMI, 50% AMI and 70% AMI) as follows:

| Affordability Level | 2020 Project Units | 2022 Project Units | Change |
|---------------------|--------------------|--------------------|--------|
| 30% AMI | 15 | 16 | +1 |
| 50% AMI | 57 | 58 | +1 |
| 70% AMI | 67 | 76 | +9 |
| 80% AMI | 10 | 0 | -10 |

City Financing

While earlier versions of this project included a direct City contribution toward project financing, the 2020 version and 2022 version do not require any direct City subsidy. The City is allowing the transfer of the affordable housing obligation from other projects (projects under development by Related California and Ensemble) into the 100% affordable project. As part of the prior negotiations between the City and the project proponents, a \$6 million contribution toward this project from Related California would take the form of a loan repayable to the City. As discussed before the City Council in 2020, this \$6 million will be repaid as a loan to the City at 0% interest. The proposed Agreement documents this repayment and is thus consistent with the terms presented to the City Council in October 2020.

Developer Fee

The 2020 Report to Council and staff presentation did not specify the details of the developer fee, although they did include a term to allow the developer to maximize their fee as allowed under State financing rules. As clarification, the project includes a proposed developer fee of \$9.387 million. Of this, \$5,992,156, would be a priority deferred developer fee. Once the priority deferred developer fee is paid, (in approximately year six), a portion of revenue generated by the project would be used to make payments to the City up to a total of \$6 million as shown in the attached project pro forma. While a pro forma was not provided to the City Council in 2020, this repayment schedule is consistent with the information staff presented at that time as staff indicated that the City would be expected to start receiving payments in year seven of the project's operation.

Conclusion

Based on this analysis, the proposed term sheet is consistent with the terms already approved by the City Council in October 2020, and City Council approval of the current AHA will allow the project developer to proceed with the construction of a 151-unit, 100% affordable housing project which will provide housing opportunities for very-low and low income residents in Santa Clara, helping the City to implement its General Plan goals for affordable housing production and to fulfill its State mandated RHNA obligation.

ENVIRONMENTAL REVIEW

The potential environmental impacts of the project were addressed in an Environmental Impact Report

(EIR) prepared for the Tasman East Specific Plan and related approvals in accordance with the California Environmental Quality Act (CEQA).

COORDINATION

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

FISCAL IMPACT

A budget amendment recognizing the \$6.0 million in developer contributions was approved during the October 27, 2020 City Council meeting. As no revenue has been received, this revenue estimate is recommended to be carried over in the City Affordable Housing Fund. This amendment is included separately in the FY 2021/22 Budget Year-End Report, scheduled to be heard as part of the December 6, 2022 City Council meeting.

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 approving and authorizing the City Manager to execute an Amended and Restated Affordable Housing Agreement with Mainline North 701, L.P. for construction of 151 affordable housing units located at 2310 Calle Del Mundo; to negotiate and execute a Loan Agreement and related project documents, consistent with the Term Sheet, as reviewed by the City Attorney for form and consistency; to execute all documents necessary (including Deeds of Trust, Promissory Notes, and Affordable Housing Agreements) to implement the Loan Agreement and close escrow; and
2. Rescind Resolution 20-8897.

Reviewed by: Andrew Crabtree, Director of Community Development

Approved by: Rajeev Batra, City Manager

ATTACHMENTS

1. Tasman East Ensemble Projects Map
2. Resolution to Amend and Restate the AHA
3. Project Term Sheet 12-6-2022
4. Project Pro Forma 11-30-2022
5. Resolution 20-8897