



CITY OF SAN MATEO

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Agenda Report

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TO: City Council
FROM: Drew Corbett, City Manager
PREPARED BY: City Manager's Office
MEETING DATE: November 18, 2019
SUBJECT:
Downtown Opportunity Sites - Project Update

RECOMMENDATION:

Receive an update on the status of the proposed affordable housing and public parking garage development on the former redevelopment-owned properties in downtown San Mateo, and provide direction to staff and the development team on various project options presented for consideration.

BACKGROUND:

The City owns two surface parking lots in downtown San Mateo, 480 E. 4th Avenue and 400 E. 5th Avenue, which were originally purchased by the City of San Mateo Redevelopment Agency. As part of the redevelopment dissolution process, the State approved the transfer of the sites to the City in March 2015 with the requirement that the City use them for development. The City released a Request for Proposals (RFP) to the development community in October 2017. The RFP required 164 residential units and 535 public parking spaces. As part of the RFP, the City pledged a financial commitment of the land value, \$4.5 million to assist with the provision of affordable housing, and \$5 million to assist with the cost of the public parking.

On April 16, 2018, the City Council selected MidPen Housing as the preferred developer for these sites and authorized the City to enter into an Exclusive Negotiating Agreement with them that will be in effect throughout the entitlement process. MidPen's proposal includes an 100% affordable 164-unit housing development on the 480 E. 4th Avenue site and a stand-alone approximately 700 space parking garage on the 400 E. 5th Avenue site. The parking garage includes 536 public parking spaces (of which 235 replace the parking in the surface parking lots and roughly 300 are net additional public spaces) and 164 residential spaces. A total of 41 housing units, or 25% of the total units, are proposed to be available for public sector employees, including those from the City, school districts, County, and other public agencies. The remainder of the housing units will have a preference for those who already live or work in the City of San Mateo to the extent that funding sources allow.

Since their selection as project developer, MidPen Housing has been working diligently with City staff to do community outreach, prepare and submit their entitlement application, and start negotiating the Disposition, Development, and Lease Agreement (DDLA) that outlines the terms of the public-private partnership for the development of the properties. The project is currently in the planning application phase of entitlement and is anticipated to be before the Planning Commission in March 2020 for entitlement approval, and the City Council in June 2020 for final approval of both the entitlement and DDLA.

MidPen Housing drafted a memo (included as Attachment 1) that summarizes the current status of the project, as well as some issues that have been identified as part of the due-diligence process, including unexpected easement issues on the 400 E. 5th Avenue parcel that impact the design of the garage and some environmental issues that impact the housing on

the 480 E. 4th Avenue site. In addition to these unanticipated site issues, the project financials have also been updated to reflect changes in market conditions. The project as currently conceived has a financing gap estimated to be roughly \$8 million. MidPen Housing has explored several options that can significantly reduce this gap that are outlined in the memo. It is important to note that affordable housing projects do not typically receive their final funding commitments until a fairly late stage and often have a projected funding gap. That said, the size of the current gap is influenced by assumptions regarding site conditions, construction timing, and tenant mix that merit re-evaluation.

In addition to providing Council with an update on the status of this important project, this report provides some key options for Council consideration that impact project design and/or can help mitigate this financial gap. Given the anticipated timing of the entitlement approvals, Council direction is needed so that project refinements can be made.

Construction Phasing

The current phasing plan for the project has the parking garage being built first and the affordable housing project commencing construction only after the parking garage is available for occupancy. The benefit of this plan is that only one of the public parking lots is fully off-line during construction. The downsides are that it delays this start of the housing construction for 12 to 18 months and adds cost.

As discussed in the MidPen Housing memo, an option for Council consideration is constructing the parking garage and housing simultaneously. This would allow the affordable housing to be built earlier and provide a cost savings to the project of approximately \$2 million due to a reduction in the construction loan interest due to the shortened construction term and from the reduced timeframe for construction administration. However, it would result in all of the 235 parking spaces being offline for a 12 to 18 month period in downtown. Staff analyzed the impact and forecasts that downtown would be at 100% occupancy during peak parking times midday and evenings during both weekdays and weekends. The target parking occupancy level is 85%.

Staff is evaluating possible mitigations that could improve parking availability during this period if Council elects to move forward with this option. Mitigations include renting spaces in private parking lots during this period, implementing valet parking in some lots to increase capacity, and providing incentives to reduce driving to downtown. There would be a cost to implementing these measures (possibly \$100,000 to \$200,000) but the costs would not outweigh the potential financial benefit to the project.

Target Income Ranges

The affordable housing project currently consists of half of the units targeting households with income ranges of under 60% of Area Median Income (AMI), and the remaining half of the units targeting “work force” households with incomes between 60% to 120% of AMI. Since this project was proposed, there has been a major change in the federal Low Income Housing Tax Credit program. Previously, tax credits could only fund units at 60% or below AMI, but now some units of up to 80% AMI can take advantage of this very important funding source. Tax credits provide the most significant financing source for affordable housing projects.

MidPen Housing analyzed the impact of doing the project as a 100% tax credit eligible project. That analysis results in a \$5.5 million decrease in the project’s financial gap. If this option were selected, the highest household income the project would serve would be 80% of AMI, which in 2019 is equivalent to an annual income of \$103,200 for a 2-person household and \$128,960 for a 4-person household. In comparison, at 120% AMI, a 2-person household can earn up to \$154,800 and a 4-person household can earn up to \$193,440. MidPen Housing believes that they will still be able to offer a public-employee preference on 25% of the units, even if they are tax credit financed.

In addition to the ability to significantly close the financial gap in the project, there are several other factors that should be considered related to this option, as outlined below:

- The rents affordable to people at 120% of AMI (\$2,505 for a 1-bedroom, \$2,993 for a two-bedroom, and \$3,592 for a 3-bedroom) are similar to, or even higher than, rents for units currently on the market in San Mateo in older apartment buildings. In contrast, the rents at 80% of AMI (\$2,092 for a 1-bedroom, \$2,498 for a 2-bedroom, and

\$2,868 for a 3-bedroom) represent a significant discount from what is currently available on the market.

- The AMI went up significantly between 2018 and 2019. As a result, some households that previously were between 80% and 120% of AMI are now at 80% AMI or below. For example, some eligible employees include teachers, librarians, entry level firefighters and police officers, police dispatchers, traffic enforcement staff, city planners, management analysts, and medical therapists.
- MidPen Housing conducted a survey and commissioned a market analysis to assess demand of public employees from multiple agencies that would be eligible for the units. The initial data indicated that the majority of public employee households have incomes of 80% AMI or lower. Survey feedback from respondents at higher income levels indicated that many did not find the rent they were eligible for to be discounted enough to warrant relocation.
- The alternative to this option would likely require significantly more financial commitment from both the City and the County.

Fee Waivers and Credits

Given that this a public-private partnership that includes the construction of a publicly-owned facility, staff is proposing to waive the City's plan check and building permit fees for the project. These fees primarily reimburse staff time spent reviewing and processing the development application. The total value of the fees proposed to be waived is roughly \$875,000. The Community Development Department can absorb this expense in its construction services fund.

The project will be subject to all impact and in-lieu fees typically charged for development. However, the City Council may want to consider a policy, specifically for affordable housing projects, to allow for more flexibility for granting credits against the Park Impact Fee for on-site amenities that reduce the potential impact on park use for project residents. The Park Impact Fee currently allows for credit on a square footage basis for these amenities, provided the total square footage of the amenities included adds up to a minimum threshold (at least 25% of the total park dedication requirement). Staff proposes allowing affordable housing projects to get credits for the space they provide, even if the threshold is not met. The type of amenities that qualify for this space include on-site playgrounds, fitness rooms, community rooms, and computer labs. Affordable housing projects are often built on constrained, infill lots and therefore have a harder time meeting the minimum threshold. The affordable project downtown will have multiple qualifying amenity spaces, in addition to on-site services such as literacy-based after school programs provided at no cost to residents, but falls a few thousand square feet short of meeting the threshold. Allowing the space they have to qualify for a fee reduction will reduce the estimated impact fee by roughly \$250,000.

Community Space in Garage

As stated in the MidPen Housing memo, the size of the community room in the garage has been reduced to 1,200 square feet due to the need for a larger transformer in the garage to accommodate an increased number of electric vehicle ready spaces required by our sustainable building reach codes. The intended use of this community space is to be shared between the operations of the Worker's Resource Center in the morning and then be available mid-afternoon for recreation activities and/or community use. The total cost to build out this space is at least \$500,000 but may be higher depending on the fixtures and furnishings required.

Staff is still working with Samaritan House to explore alternative locations for the Worker's Resource Center. There are currently some locations that may be an option on North Amphlett. These facilities rent for between \$30,000 to \$60,000 a year. If the Worker's Resource Center is relocated to this area during construction, staff believes it may be prudent to keep it there and not relocate it to the parking garage when it is completed since we do not know how many years the City will continue operations given shifting economic trends. In addition, staff is still exploring centerless options, similar to the Redwood City model.

If the Worker's Resource Center is not housed in the garage, staff would recommend Council consider not building the community space in the garage since it will be challenging to manage as an off-site facility and it may not be well utilized. In addition, it is very close to the recreation space that is proposed to be built in Central Park as part of the Master Plan. Not building the community room would reduce the costs of the project by roughly \$500,000.

All-Electric Building Options

In addition to meeting the City's mandates for more sustainable buildings, MidPen Housing has stated that they are willing to design the residential project to be 100% electric, exceeding current code requirements. All electric buildings are a goal of many local communities since electricity provided by Peninsula Clean Energy will be 100% greenhouse gas free by 2022. Achieving a carbon neutral residential development at this site would mean that the standard gas water heating system would be upgraded to an innovative electric system. If integrated early in the design process, this upgrade could be absorbed by the project budget. Fully leveraging the all-electric design to achieve net-zero status, however, would require additional investment in on-site solar energy generation, estimated to cost up to \$2 million. Staff does not recommend exploring a net-zero building given the added cost.

State Housing Law Impacts

The State recently passed a new housing bill, AB 1763, which allows for increased height and density for 100% affordable projects that are in close proximity to transit. This project meets the eligibility provisions of this new State law. It is important to note, however, that this project is using a density transfer provision to provide the total number of housing units that could be developed on both project sites on the housing parcel and therefore is already a fairly dense project. In addition, given the progress made on this project in terms of design and environmental review, a major redesign would lead to a delay of 6 to 12 months. Given the limits of the construction type and existing caps in available affordable housing financing sources, it is likely that the unit count could only be increased by 36 to 72 units which would require an additional 2 stories added to the building, resulting in a 7-story building. Depending on the design, it may also impact the number of public parking spaces available in the garage. To offset the added construction and design costs, the unit mix would need to be 100% tax credit eligible in order for the development to remain financially viable.

Additional City Funding

The options presented in this report have a potential to significantly reduce the project's financial gap when layered together. It is important to note that since some relate to financing and some are direct cost reductions, they do not necessarily achieve a direct combined dollar for dollar savings. As an example, MidPen Housing has analyzed the option of doing a 100% tax credit project, building the housing and garage simultaneously, and having waived plan check and building fees, and estimates the remaining gap to be between \$1.5 and \$2 million.

Given this, it may be necessary for the City to contribute some additional funds to the project from the Parking In-Lieu fund or from the City's affordable housing funds. MidPen Housing will continue to seek out additional sources of funding to finance this project and will continue to refine their financial estimates as construction costs and financing rates adjust. If additional City contribution is needed, staff will bring it forward for Council consideration as part of the DDLA review and approval process.

Questions for Council Consideration

As described in this memo, City Council feedback is requested on the following options related to the project design and financing:

- 1) Should the housing project be built concurrently with the parking garage?
- 2) Should the income targets of the project be revised to serve households of up to 80% of AMI?
- 3) Should the City waive a portion of the development review fees for this project?
- 4) Should the City consider reducing the threshold for allowed credits against the Park Impact Fee for affordable housing projects?
- 5) Does the Council want to include the Community Room in the project?
- 6) Should the housing project be designed to be 100% electric (no natural gas service)?
- 7) Does the Council want to explore amendments to the project under AB 1763?
- 8) Is the Council willing to commit additional City resources to this project, as needed?

BUDGET IMPACT:

The City is currently anticipating providing financial assistance to this project, once approved, in the form of providing a ground lease for the land for the housing and providing \$4.5 million in affordable housing funds and \$5 million from

parking in-lieu funds. The City may need to contribute additional funds to this project to close any remaining financing gap. The amount of additional funding needed is not known at this time due to the many variables in the project.

ENVIRONMENTAL DETERMINATION:

This informational item is not a project subject to CEQA, because it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines Section 15378(b)(5).)

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 - MidPen Housing Memorandum

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