



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: April 27, 2007

Approved

Date

4/30/07

COUNCIL DISTRICT: 6

SNI AREA: Burbank/Del Monte

SUBJECT: APPROVAL OF LAND DEDICATION PLUS CASH PAYMENT BY SOBRATO GROUP IN LIEU OF PROVIDING AFFORDABLE HOUSING UNITS ON THE EAST SIDE OF RACE STREET BETWEEN AUZERAIS STREET AND PARKMOOR AVENUE

RECOMMENDATION

It is recommended that the City Council adopt a resolution, based on findings in this report, authorizing the City Manager to negotiate and execute agreements necessary to accept from Sobrato Group, a California Limited Partnership:

- a) An upfront in-lieu payment of \$4,476,780 to the City to partially satisfy Sobrato Group's inclusionary housing obligation for the development of 627 rental apartment units on the east side of Race Street between Auzerais Avenue and Parkmoor Avenue proposed in pending Planned Development Permit applications PD07-025 and PD07-026; and
- b) An agreement to dedicate to the City a 3.1-acre site at the southeast corner of Race Street and Parkmoor Avenue, to occur no later than May 15, 2013, which dedication will satisfy Sobrato Group's remaining inclusionary housing obligation for those 627 units.

OUTCOME

Approval of the recommended acceptance of land plus cash payment will yield to the City's affordable housing programs a value substantially in excess of that which would otherwise be paid in the form of inclusionary housing in-lieu fees.

April 27, 2007

Subject: Approval of Land Dedication Plus Cash Payment by Sobrato Group to Satisfy Inclusionary Housing Obligation

Page 2

BACKGROUND

Sobrato Group is proposing the development of rental apartment units on the east side of Race Street between Auzerais Avenue and Parkmoor Avenue. The properties in question, which straddle the Vasona Light Rail Line, were the subject of General Plan amendments approved by the City Council on April 24, 2007 (GP05-06-01, GP05-06-02 and GPT05-06-02). Applications for two Planned Development rezonings of these properties are agendized for City Council consideration on May 15, 2007 (PDC06-024 and PDC06-025). Sobrato has filed applications for two Planned Development Permits (PD07-025 and PD07-026) to develop 627 apartment units on a portion of the properties covered by these General Plan amendments and PD rezonings.

The site of the proposed housing development is located in a Redevelopment Project Area and is therefore subject to the joint City-Redevelopment Agency Inclusionary Housing Policy. Of the 627 units being proposed, the Policy would require that 125.4 be subject to long-term affordability restrictions. To satisfy that Inclusionary Housing Obligation, Sobrato Group has proposed making an immediate payment of \$4,476,780 to the City and, within six years, dedicate to the City a 3.1-acre parcel at 1290 Parkmoor Avenue, which is adjacent to the proposed 627-unit apartment project.

ANALYSIS

Sobrato Group's proposal can be approved by the City Council pursuant to a proposed amendment to the Inclusionary Housing Policy being recommended to the City Council and Redevelopment Agency Board on the May 15, 2007 afternoon session. The recommendation in this report for approval of Sobrato Group's proposal is conditioned on approval of the amendment to the Policy as recommended by staff.

As noted above, the 627 units that Sobrato is proposing to construct would result in an inclusionary housing obligation of 125.4 units (20% of the total units in the development). The current inclusionary in-lieu fee is \$71,400 for each rental unit not being provided by the developer. The total of in-lieu fees for 125.4 units would be \$8,953,560.

Sobrato Group is proposing to pay 50% of the total In-Lieu Fee, or \$4,476,780, upon execution of an agreement with the City and to dedicate to the City, within six years of that agreement, the 3.1-acre site at the southeast corner of Race Street and Parkmoor Avenue. That property is currently under lease to the City's Work2Future jobs training program. The property would be dedicated after the March 31, 2013 termination of the City's lease. The up-front cash payment of \$4,476,780 is proposed to be deposited in the City's Housing Trust Fund to fund programs to address homelessness.

The property has an estimated current value of \$10,275,000 based on its rental income stream. Even if that value is lowered by the cost to demolish the existing structure to redevelop the site for another use (approximately \$500,000), the property is still worth more than the otherwise

April 27, 2007

Subject: Approval of Land Dedication Plus Cash Payment by Sobrato Group to Satisfy Inclusionary Housing Obligation

Page 3

required in-lieu fees of \$8.95 million. The total value of Sobrato's cash payment plus value of dedicated land comes to over \$14.75 million which is substantially in excess of \$8.95 million that would be owed under a straightforward payment of in-lieu fees.

The site proposed for dedication could accommodate up to 155 units under the recently-approved General Plan amendments, which exceeds the otherwise required 125.4 inclusionary units.

Once the property is dedicated, the City would have a number of options:

- Redevelopment of the site with affordable housing with deeper affordability than is required under the Inclusionary Housing Policy and perhaps at a higher density than currently allowed.
- Redevelopment of the site with a mixed-use project of affordable housing and office uses.
- Sale of the site, with the proceeds being used to construct affordable housing elsewhere.

The primary documents necessary to conclude the proposed arrangement, which the City Manager will negotiate and execute, include:

- An agreement to spell out the purpose, terms and conditions of the upfront in-lieu payment of \$4,476,780 and property dedication to occur no later than May 15, 2013. The Agreement will provide that if, upon transfer of the dedicated site, the value of the dedicated site is not at least equal to the future value of the in-lieu fee remaining payable, the developer will immediately pay the shortfall in cash.
- An agreement (possibly a Deed of Trust recorded on the title to 1290 Parkmoor Avenue) to secure the obligation to dedicate.
- An acknowledgement by the City that, upon transfer of the dedicated site, any amount by which the value of the site exceeds the future value of the in-lieu fee remaining payable is a donation to the City above the amounts otherwise required under the Inclusionary Housing Policy.

Based on the transaction outlined above, the City Council can make the following findings required by the Inclusionary Housing Policy amendment being recommended for adoption on May 15, 2007:

1. The dedicated site will be subject to an agreement between the developer and the City that sets forth a date certain for the transfer of the dedicated site and such agreement is in the best interest of the City.
2. The value of the dedicated site at the date such agreement is executed is greater than the in-lieu fee in effect at the date such agreement is executed multiplied by the number of otherwise required affordable housing units within the private housing development.
3. The dedicated site could accommodate at least the number of otherwise required affordable units within the private housing development.

4. The dedicated site is adjacent to the private housing development.
5. The date that the dedicated site will be transferred by the developer to the City is acceptable to the City.
6. The up-front payment to the City is a substantial and sufficient percentage of the in-lieu fee in effect at the date such agreement to dedicate will be executed multiplied by the number of otherwise required affordable units within the private development.

POLICY ALTERNATIVES

The Housing Department considered the following alternative before recommending the proposed transaction:

Alternative #1: The City could require that the inclusionary units be included in the Sobrato Group's private housing development.

Pros:	The affordable housing units would be integrated into an otherwise market-rate development and would be constructed sooner.
Cons:	The proposed deposit of \$4,476,780 in the City's Housing Trust Fund will make a significant improvement in the City's ability to fund programs and activities addressing homelessness. The future use of 1290 Parkmoor Avenue for affordable housing (or sale of the site to build affordable housing elsewhere) will result much deeper affordability than is required under the Inclusionary Housing Policy.
Reason for not recommending:	The proposed transaction will result in resources to fund affordable housing and end homelessness that exceed the value of the otherwise required 125.4 inclusionary units.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

The proposed transaction does not meet any of the above criteria. Nonetheless, this report will be posted on the City Council Agenda Website for the May, 2007 meeting. The two rezonings

HONORABLE MAYOR AND CITY COUNCIL

April 27, 2007

Subject: Approval of Land Dedication Plus Cash Payment by Sobrato Group to Satisfy Inclusionary Housing Obligation

Page 5

of the properties addressed in this report will be the subject of noticed public hearings before the City Council on May 15, 2007.

COORDINATION

Preparation of this recommendation was coordinated with the City Attorney's Office, the Redevelopment Agency, and the Office of Economic Development.

FISCAL/POLICY ALIGNMENT

Depositing the cash payment of \$4,476,780 in the City's Housing Trust Fund (Fund 440) will help fund programs and activities implementing the City's Ten-Year Plan to End Homelessness.

CEQA

CEQA: City Council Resolution No. 73729


LESLEYE KRUTKO
Director of Housing

Attachment: Location Map

For questions please contact Leslye Krutko, Director of Housing, at (408) 535-3851.

Attachment
Location Map

1290 Parkmoor Avenue

