



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: September 27, 2006

Approved

Date 10-4-06

COUNCIL DISTRICT: 7
SNI AREA: N/A

SUBJECT: APPROVAL TO ENTER INTO EXCLUSIVE NEGOTIATIONS AND TO EXECUTE AN OPTION AGREEMENT FOR THE PURCHASE OF THE CITY-OWNED EVANS LANE SITE

RECOMMENDATION

It is recommended that the City Council adopt a resolution:

- (a) Authorizing the Director of Housing to enter into exclusive negotiations with Satellite Housing, Inc., or its affiliate, for the development of a 5.94-acre City-owned site located at 2090 Evans Lane; and,
- (b) Authorizing the Director of Housing to negotiate and execute an Option Agreement for the Purchase of Property from the City of San José with Satellite Housing, Inc., or its affiliate, for the subject property in the amount of \$15,507,400.

OUTCOME

The recommended action will allow the timely future development of this parcel, with the potential to support restricted affordable and ownership housing units.

BACKGROUND

The City owns a 5.94-acre vacant site located on the east side of Evans Lane, north of Curtner Avenue. The site is comprised of two parcels. The City purchased the larger parcel of approximately 4.94 acres from the Valley Transportation Authority in December 2002. The larger parcel formerly housed a Recreational Vehicle storage business. The City has owned the smaller parcel of approximately one acre since October 2002, when the City Council approved

the oversight of the parcel from the General Services Department to the Housing Department for the purposes of developing affordable housing.

The City was approached by advocates for persons with hearing impairments in 2002 with a proposal to increase the supply of housing with amenities targeted to individuals with hearing impairments. The advocates identified a successful model developed in the City of Fremont by Satellite Housing, Inc. ("Satellite"), a nonprofit housing developer based in Berkeley. Working in partnership with Satellite, the City identified a number of potential development sites. None of the sites investigated proved feasible, based on the combination of size, location attributes and price. Housing Department staff is requesting authorization to work with Satellite to develop a proposal to utilize the City-owned property at Evans Lane to serve the families with one or more members with a hearing impairment.

The Department's preliminary plan for this site includes development of an affordable rental housing project and an ownership housing development. As a requirement of the General Plan Amendment adopted by the City Council on September 3, 2002, the site will also include a one acre public park.

The option price of \$15,507,400 for the entire 5.94-acre site is substantiated by an appraisal completed by Hulberg and Associates on July 14, 2006. Execution of an Option Agreement would convey site control to Satellite to enable it to apply for financing for the future project. Ultimately, a portion of the site will be conveyed to the Parks, Recreation, and Neighborhood Services Department for development of the required 1.0-acre park, and a portion of the site will be conveyed to a developer of ownership housing through a Request for Proposal (RFP) to be issued by the Housing Department in the Fall of 2006. The final proposed use of the site, affordability levels and required City subsidy will be determined through the RFP process.

Pursuant to the Delegation of Authority granted to the Director of Housing by the City Council, the Director of Housing approved a \$37,000 predevelopment loan to Satellite on June 14, 2006, for preliminary investigation of the site.

ANALYSIS

Satellite Housing

Satellite is a well-respected nonprofit housing developer founded 40 years ago that frequently focuses on building affordable multifamily projects for people with special needs such as seniors, the deaf, and those with developmental disabilities. Satellite works throughout the East Bay and has a portfolio of 17 properties with 1,215 units. Satellite's properties house more than 1,300 low-income residents, with the majority earning less than \$10,000 per year.

The Housing Department supports Satellite as a good choice to enter the San José development market given its track record and its strong focus on serving seniors and special needs populations. Satellite's ability to serve these populations is aligned with the City's needs for

affordable housing for certain segments of the population as defined in the City's Consolidated Plan 2005-2010.

Ownership Developer

In the Fall of 2006, the Housing Department plans to issue an RFP to the development community for the ownership component of the site and will bring a developer recommendation to the City Council for approval. Once a developer for the ownership project is selected, the Department would bring back a recommendation to revise Satellite's existing Option Agreement to reflect the new development proposal.

Site Conditions and Zoning

The site is located between the Almaden Expressway and Highway 87 and is within walking distance of the Curtner Avenue Light Rail Station. The site is zoned LI (Light Industrial Zoning District) with a General Plan land use designation of High Density Residential (25-50 DU/AC) with a floating Public Park/Open Space designation. The neighborhood has a mix of rental housing and commercial uses, and during the last ten years, several adjacent properties have transitioned from commercial uses to residential uses. It is anticipated that any proposal would provide residential uses and a neighborhood park.

An option agreement between the City and Satellite gives the developer site control, allowing it the time needed to conduct a predevelopment assessment and feasibility studies while pursuing land entitlements jointly with the developer selected for the ownership portion of the site. Any further agreements, including a Disposition and Development Agreement, and any loan documents, that the City enters into with Satellite, would be contingent upon Satellite's ability to obtain Planned Development rezoning approval, including all environmental clearances, and ultimate approval from the City Council. In addition, the parcels would be subdivided by the developers at a later date once final site plans have been approved by the Housing and Planning, Building and Code Enforcement (PBCE) Departments. Public improvement costs and other infrastructure costs would be shared between the rental housing and the ownership housing developers.

POLICY ALTERNATIVES

To arrive at this proposal, which is discussed below the Alternative, staff analyzed the following options:

Alternative #1: Conduct an RFP competition to determine a developer for the affordable rental housing.

Pros: Allows other developers to respond with a development proposal for the site.

Cons: Other developer respondents may not have as strong a track record in serving special needs populations as does Satellite. Because the for-sale developer is to be selected via RFP, there is a greater likelihood of creating a cooperative

respondents will better be able to gauge their interest and identify potential coordination issues in advance. An RFP mechanism may restrict the Department somewhat in its ability to negotiate a different project concept or site design than is proposed in formal bids.

Reason for not recommending: The Department will maximize its influence on the development of this parcel by allowing direct negotiations with a developer that is known to provide a high-quality product appropriate for the City's target populations.

After considering this alternative, Housing Department staff opted to seek the City Council's authorization to enter into exclusive negotiations with Satellite and to execute an Option Agreement to give Satellite site control so it may proceed with predevelopment work and seek project financing. Authorizing the Director of Housing to negotiate exclusively with Satellite would enable the City to maximize control over the determination of the population to be served and the site plan to be approved. Approving Satellite Housing as a development partner would also strengthen its capacity to engage in further affordable housing development projects in San José, and is very likely to result in a high-quality affordable housing project.

PUBLIC OUTREACH

- **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)**

This item does not meet any of the criteria above, as the recommended actions do not involve the use of public funds, a new policy, or proposed changes to service delivery or programs.

This report will be posted to the City's website for the October 17, 2006, City Council Agenda. Public outreach will be held as part of the Planned Development rezoning process, which the developers together will undertake as part of the development process.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the Department of Planning, Building and Code Enforcement.

FISCAL/POLICY ALIGNMENT

The recommended action is consistent with the Housing Department's Five-Year Investment Plan, Fiscal Years 2002-07, concerning the Department's housing production goals.

COST IMPLICATIONS

The recommended action will have no cost implications to the City.

CEQA

Mitigated Negative Declaration, File No. GP02-06-02b


LESLYE KRUTKO
Director of Housing

Attachment

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

Location Map

2090 Evans Lane

