

County of Santa Clara
Office of Supportive Housing



24-5281

DATE: April 16, 2024 (Item No. {{item.number}})
TO: Board of Supervisors
FROM: Consuelo Hernandez, Director, Office of Supportive Housing
SUBJECT: Mountain View Lot 12 - Increase in Loan Amount

RECOMMENDED ACTION

Approve amended delegation of authority to the County Executive, or designee, to negotiate, execute, amend, or terminate all legal documents, including but not limited to contracts, loan agreements, deeds of trust, promissory notes, subordination agreements, and assignment agreements relating to one or more loans with co-developers Related California and Alta Housing or affiliate for the development of 120 apartments at Mountain View Lot 12 to be located at 907, 929 and 941 California Street and 424, 428, 444, 454, 460 and 468 Bryant Street, Mountain View, and increasing the maximum loan amount by up to \$10,000,000 from \$9,750,000 to \$19,750,000, following approval by County Counsel as to form and legality, and approval by the Office of County Executive, and subject to Administration review of related due diligence matters and other standard requirements set forth in the final documentation. Delegation of authority shall expire on December 31, 2026. (LA-1)

FISCAL IMPLICATIONS

If approved, the County's additional capital investment of up to \$10,000,000 is expected to be drawn from two sources. Approximately \$7,000,000 would be drawn from the County's 2016 Measure A Affordable Housing Bond (Housing Bond) and added to the project's existing Housing Bond loan amount of \$9,750,000, and up to \$3,000,000 would be drawn from the County's funds for intellectual and/or developmental disabilities (I/DD) and their families, for a total capital contribution of \$19,750,000. However, the Administration may adjust the amounts from the funding sources based on the needs of the project and availability of funding from other sources.

If approved, the County's contribution towards this development would average approximately \$164,583 per unit.

REASONS FOR RECOMMENDATION AND BACKGROUND

Approval of the recommended action is consistent with the Board's direction to accelerate the production of affordable and supportive housing. Through a prior action on February 8, 2022 (Item No. 50), the Board approved \$9,750,000 in funding to support the Lot 12 project in Mountain View as part of the eighth cohort of developments requesting Housing Bond funds. Since the Board's approval, Related California and co-developer Alta Housing or affiliate (Related + Alta) have secured a reservation of 25 Section 8 Project-Based Vouchers from the Santa Clara County Housing Authority but have not been successful in securing other gap financing necessary to apply for tax credits.

Related + Alta applied for approximately \$35,000,000 in funding under the Multifamily Finance Super Notice of Funding Availability issued by the California Department of Housing and Community Development in July 2022 and 2023. The project was not awarded funds in either year and given the recent budget reductions in housing funds available at the state level, it is unclear how competitive the Lot 12 project would be in future funding rounds.

To help close the funding gap, Related + Alta have been exploring several alternatives to reduce the total construction cost and identify other financing options that would minimize the financing gap so that they can apply for competitive state tax credits available in 2024. To submit a tax credit application, a project must show that all of its financing, less equity generated by tax credits, is in place. As the Office of Supportive Housing (OSH) has previously reported, one of the primary challenges in accelerating the development of housing is the lack of available gap financing and the competitiveness of tax credits and tax-exempt bonds. Currently, there are 17 Housing Bond funded projects that are "stuck" and unable to move forward because there aren't sufficient gap financing options. OSH has developed a set of strategies to close the financing gap on several projects and these will be coming forward to the Board for consideration as they are ready. To that end, OSH has worked closely with Destination Home, Related + Alta, and the City of Mountain View to chart a path that would help the Lot 12 project apply for state tax credits and 4% federal tax credits plus tax-exempt bonds (collectively, 4% tax credits) in April 2024.

Related + Alta have redesigned the project through value engineering to reduce overall construction costs by approximately \$8,000,000, leaving a remaining financing gap of \$10,000,000. The Administration through OSH has identified a combination of Housing Bond and I/DD housing funds to increase the County's commitment by \$5,000,000 to help Related + Alta fill a portion of the gap. Similarly, the City of Mountain View staff have identified \$5,000,000 to fill the remaining gap. Unfortunately, with the tight timelines, the earliest the City of Mountain View City Council is able to consider their additional investment of \$5,000,000 towards this project is May 2024, which is after the 4% tax credit application deadline of April 23, 2024.

Increasing the County's loan by up to \$10,000,000 would close the project's financing gap that would enable Related + Alta to move forward with a 4% tax credit application to the California Tax Credit Allocation Committee on April 23, 2024. As noted above, the recommended action is needed so that Related + Alta can submit a competitive application for 4% tax credits and secure all of the necessary financing to start construction in fall 2024.

Approval of the recommended action would enable the Administration to increase the total amount of the County's commitment by up to \$10,000,000 from \$9,750,000 to up to \$19,750,000. If the recommended action is approved, the Administration would increase the construction/permanent loan amount available to the project at commencement of construction. OSH will continue to work with Related + Alta and the City of Mountain View on identifying other funding sources to reduce the need for additional funding from the County. The final increase of the County's loan could be less than the \$10,000,000 that Related + Alta requested. Related + Alta will continue to pursue additional funding sources and the additional County funding will only be used if Related + Alta is unable to secure funds from another funding source at construction finance closing. While the Administration will continue to negotiate the final loan terms, the following summarizes the current expected terms:

- a. The principal under this loan would bear simple interest at a rate of three (3%) per year, subject to final underwriting;
- b. The principal and interest due under this agreement must be paid 55 years from the date of the final certificate of occupancy for the project. Annual payments will be made upon the availability of residual receipts and will be proportionally split between the subordinate lenders; and
- c. The County's regulatory agreement will be recorded upon the closing of the first loan from the County and the term will expire no earlier than 55 years from the date of the final certificate of occupancy for the project. The regulatory agreement will ensure that the entire property remain affordable and that 20 units will be set aside for County-referred homeless families and individuals and 15 units will be set aside for individuals with intellectual and/or developmental disabilities for a minimum of 55 years.

If the recommended action is approved, 15 of the extremely low-income (ELI) units would be designated as I/DD units. The San Andreas Regional Center (SARC) would be responsible for coordinating and providing ongoing on-site supportive services for the residents of the 15 I/DD units. SARC's obligations would be delineated in a no-cost Memorandum of Understanding between SARC and Related + Alta.

The revised total affordable housing units would consist of 20 rapid rehousing (RRH) units, 15 I/DD units, five units for households earning up to 30% of the area median income (AMI), 40 units for households earning up to 50% AMI, and 39 units for households earning up to 80% AMI.

Reason for Request of Delegation of Authority

Although delegations of authority are discouraged except under certain circumstances, this delegation of authority is necessary to timely address any requirements Related + Alta may have in connection with its application for 4% tax credits. The County's funding commitment is a necessary step, but not the final action, to enable this development to secure necessary project financing.

A delegation of authority is also needed because the Administration will continue to work with Related + Alta to reduce costs, optimize funding sources, and maximize supportive housing and extremely low-income housing units. The Administration will continue to work with Related + Alta to refine construction estimates, seek fee waivers, reduce administrative expenses, and eliminate unnecessary reserves.

CHILD IMPACT

The recommended action would have a positive impact on children and youth through the **Safe and Stable Families** indicator by creating 119 new affordable apartments. Twenty of these apartments would be set aside as RRH units and 15 of these apartments would be set aside as I/DD units. The remaining 84 apartments would be affordable and available to lower income households, including those with children.

SENIOR IMPACT

The recommended action could have a positive impact on seniors. The development would create 119 new affordable apartments for lower-income households, some of whom could include seniors.

SUSTAINABILITY IMPLICATIONS

The recommended action balances public policy and program interests and enhances the Board of Supervisors' sustainability goal of social equity by improving homeless and low-income person's access to stable housing.

CONSEQUENCES OF NEGATIVE ACTION

If the County delays approval for the recommended action, the Developer would not be able to submit its 4% tax credit application on April 23, 2024. The Developer would have to submit an application in the next round, thus further delaying the project by several months.

STEPS FOLLOWING APPROVAL

Upon approval, the Clerk of the Board is requested to notify Natalie Monk, Stephan Jackson, Janet Soo, and Kiran Gill.

ATTACHMENTS

- Lot 12 Community Engagement Report