



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Nanci Klein
Jacky Morales-Ferrand
Jon Cicirelli
Robert Sapien Jr.

**SUBJECT: INTERNAL TRANSFER FOR
AFFORDABLE HOUSING SITES**

DATE: October 8, 2020

Approved

Date

10/15/2020

COUNCIL DISTRICT: 1, 3, 5

RECOMMENDATION

Adopt a resolution;

- (a) Authorizing the Director of Housing to negotiate and execute any documents required under California Redevelopment Law for the transactions herein, and any amendments or modification thereto, including, but not limited to, the affordability restrictions; and
- (b) Authorizing the transfer of the following three City-owned real properties, totaling approximately 1.02 acres of land, to the Housing Department to be funded from the Low and Moderate Income Housing Asset Funds for the future construction of affordable housing in exchange for the appraised values of the properties consistent with the California Redevelopment Law:
 - (1) 3707 Williams Road (Assessor Parcel Number 299-32-074) from the Department of Parks, Recreation and Neighborhoods Service for the appraised amount of \$6,200,000; and
 - (2) 1749 Mt. Pleasant Road (Assessor Parcel Number 647-24-042), from the Fire Department for the appraised amount of \$900,000; and
 - (3) 430 Park Avenue (Assessor's Book 259, Page 46, unassigned parcel), from the Office of Economic Development for the appraised amount of \$555,000.

OUTCOME

Adoption of this resolution will allow for the transfer of approximately 1.02 acres of City-owned properties, as described and depicted in Exhibit A, from Department of Parks, Recreation and Neighborhoods Service (PRNS), the Fire Department (FIRE) and the Office of Economic Development (OED) to the Housing Department to support future affordable housing, in exchange for the total appraised values of \$7,655,000.

BACKGROUND

San José remains one of the most expensive housing markets in the region in terms of land acquisition for affordable housing due to the scarcity of land and competitiveness in the real estate market. As a result, the Housing Department in partnership with the Office of Economic Development outlined a strategy to explore and identify site acquisition opportunities of City-owned properties. Housing and OED staff completed site visits and collaborated with other City staff to evaluate potential city-owned sites for future affordable housing development. Furthermore, in July 2019, the Housing Department released a Request for Qualification (RFQ) to solicit architectural services to provide a full complement of building, design, and site programming suitable for affordable housing. In November 2019 and January 2020, the Housing Department entered into two Master Agreements with the DAHLN Group and MBA Architects respectively to provide such services. Simultaneously, the Housing Department and the City's Real Estate Services Division identified the subject properties as potential sites and were supported by contracted architects.

It is the Housing Department's intent to acquire the City-owned properties and include them in its portfolio as future sites for affordable housing development. Upon a successful acquisition of the subject properties, Housing Department staff will work with its team of architects to develop studies to further explore affordable housing options that are consistent with land-use requirements, California Redevelopment Law (CRL) and meet the needs of the community. Upon further review of development options, the Housing Department will either issue a Request for Proposal (RFP) or Notice of Funding Availability (NOFA) to identify capable partners to develop the sites into permanent affordable housing. Once a developer is selected, the entitlement process, zoning modifications, the California Environmental Quality Act (CEQA) and other development requirements will be initiated.

The Housing Department will be using Low- and Moderate-Income Housing Asset Funds (LMIHAF) to acquire the properties. Upon dissolution of the Redevelopment Agency the City of San José elected to retain the housing assets and the affordable housing functions of the Redevelopment Agency. The City now administers the affordable housing functions of the Redevelopment Agency as the housing successor subject to the provisions of CRL which relate to affordable housing. Since that time, annual loan repayments and full loan repayments of the City's redevelopment-funded loans are deposited into the LMIHAF account. On October 12, 2013, the then governor signed into law Senate Bill 341 which amended provisions of the CRL relating to the functions performed by housing successors. The Housing Department, functioning as the housing successor, now manages all LMIHAF financial investments for the purposes of developing and preserving affordable housing opportunities. Consistent with the CRL, the Housing Department must restrict the property for low income housing development by recording a 55-year affordability restriction against the fee title and demonstrate progress towards developing these sites within five years of the time of acquisition.

The subject properties consist of three parcels, which total approximately 1.02 acres (44,416 square feet), are located at 3707 East Williams Road, 1749 Mt. Pleasant Road, and 430 Park

Avenue. All three parcels are existing City-owned land which are currently vacant or underutilized.

3707 East Williams Road: is the site of the West San José Community Center. Acquired in 2004, the site is approximately 20,370 square feet of land, and contains a 9,828 square foot office building with 27 surface parking spaces. The property was purchased in 2004 through joint efforts of the San José Redevelopment Agency, PRNS, and the Police Department and is currently held by PRNS. The acquisition was part of the Blackford Strong Neighborhoods Initiative to provide more recreational opportunities for neighborhood youth. Programming that had been located at Starbird Center (in Starbird Park) was moved to this new facility to increase teen programming at Starbird.

During the Great Recession, PRNS placed many of these neighborhood community center buildings into what became known as the “re-use program.” Facilities in this program became occupied by non-profit partners with low-cost or no-cost rent. This location is currently occupied by the Silicon Valley Korean American Federation (Federation). This group provides services to Korean Americans including senior nutrition, citizenship support, English as a Second Language (ESL) and senior and youth programs such as dance and the arts. The Federation also coordinates with various Korean agencies and service providers from throughout the Bay Area.

1749 Mount Pleasant Road: acquired in 1963, is approximately 21,000 square feet of land located on Mount Pleasant Road in the eastern foothills of San José. The property is currently held by the Fire Department and was the home of Fire Station #21 until 2016 when it was relocated. The station operated out of a converted single-family residence, which is vacant and still located on the property.

430 Park Avenue: acquired in 1971 and currently held by the Office of Economic Development, is approximately 3,046 square feet of vacant land located at the southwest corner of Park Avenue and Sonoma Street. The property is currently serving as a parking lot.

ANALYSIS

The City of San José holds fee ownership of these three subject properties. Real Estate staff conducted environmental review and an appraisal for each of the three properties, and the results of these analyses are summarized below. Staff determine the highest utility to the municipality for each of the three subject properties to be affordable housing development. It is noted that there are no current plans for affordable housing projects on any of the three sites, and any future affordable housing projects would be subject to the typical approval and notice processes, and CEQA analysis.

Dept.	Address	APN	Acres	Appraised Value
PRNS	3707 E. Williams Road (West Community Policing Center)	299-32-074	0.47	\$6,200,000
FIRE	1749 Mt. Pleasant (Old FS #21)	647-24-042	0.48	\$900,000
OED	430 Park Ave	259-46-XXX	0.07	\$555,000
Total			1.02	\$7,655,000

3707 East Williams Road: The property has agricultural history from the 1930s to the 1950s. There is no soil contamination found on site after testing. A City commissioned appraisal valued the property at \$6,200,000 (\$304.37/SF). An architect was hired to determine capacity for housing development on the site and produced a report stating based on the number of floors of the building (up to six is allowable) and the type of units (studios versus two and three bedrooms) a range of 70 to 90 new units could be built on this site.

The Federation has a re-use agreement with the City of San José to provide services at the 3707 Williams Road site through December 2020. Staff contacted the Federation in December 2019 and discussed the possible sale of this location and notified the group that they may need to relocate in the future. With transfer of this property, the Housing Department would allow the Federation to maintain occupancy of the building until such time that development is ready to proceed. This is expected to allow continued use of this building for one year, and possibly longer. Once the re-use agreement expires, Housing may wish to negotiate a lease with the Federation.

PRNS will in the future, prepare and post a Request for Qualifications to solicit service providers for the Neighborhood Community Centers (former re-use sites). The RFQ process is on hold at this time. The Federation would have an opportunity to apply through this RFQ to relocate to another PRNS facility once they need to relocate from the Williams Road site.

1749 Mt. Pleasant Road: There is no soil contamination found on site after testing. A City commissioned appraisal valued the property at \$900,000 (\$42.86/SF). Based on an appraisal, the highest and best use of this site is demolition and redevelopment for a residential project. Based on the allowable eight units per acer on this site, depending on the availability of a density bonus for this affordable development, is it estimated that between four and six new affordable units.

The building is situated on the north portion of the site, while the south portion has a large, paved parking area. The building has boarded up windows and has not been maintained in recent years. It would need significant renovation in order to be usable again.

430 Park Avenue: The site has no hazardous materials history. A City commissioned appraisal valued the property at \$550,000 (\$182.21). Based on the appraisal, the highest and best use of this site is for residential development. The site is designated as “downtown” in the General Plan which allows flexibility for the future development of the site. Due to the small size, it is likely that four to five units will be built on this site.

Because the property is vacant, there is an ongoing City maintenance obligation including addressing abandoned vehicles, homeless encampments, and weed abatement. The planned widening of Park Avenue is expected to shrink the usable square footage of the property, but the smaller lot area will remain suitable for residential development.

CONCLUSION

Staff recommends that the City Council approve the transfer of the subject properties from PRNS, FIRE and OED to the Housing Department to support future affordable housing, in exchange for the appraised values paid from LMIHAF Funds and in compliance with CRL requirements. Proceeds of this transfer will be deposited to the following funds: The Subdivision Park Trust Fund (\$86,000), Neighborhood Security Bond Fund (\$1,650,000), and General Fund (\$5,919,000) as further discussed below in the Cost Summary/Implications section.

EVALUATION AND FOLLOW-UP

The transfer of the subject properties is anticipated to be completed in October 2020. Staff will return to the City Council in the future regarding budgetary actions for the study, planning, environmental, design, and development efforts that could lead to affordable housing development at these sites.

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more Climate Smart San José energy, water, or mobility goals. The project would facilitate transit options other than single-occupancy, gas-powered vehicles as residential infill projects in the City.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the October 27, 2020 Council Meeting.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

This item was not heard by the Housing and Community Development Commission, as approvals of affordable development financing do not fall under the functions, powers, and duties of the Commission delineated in Section 2.08.2840 of the San José Municipal Code.

FISCAL/POLICY ALIGNMENT

This expenditure is consistent with the following policy documents: *The City's Envision 2040 General Plan* and the *2014-23 adopted Housing Element* in that it will help the City meet its Regional Housing Needs Allocation; the City's current *Housing Investment Plan* in that it increases San José's supply of affordable housing; the *City's 2015-20 HUD Consolidated Plan* in that it will provide rental apartments affordable to very low- and extremely low-income households; and the *Community Plan to End Homelessness* approved by the City Council in February 2015 in that it is providing supportive housing for formerly homeless residents.

COST SUMMARY/IMPLICATIONS

The three properties will be purchased by the Housing Department using Low- and Moderate-Income Housing Asset Funds and will be for future sites of affordable housing development. The proceeds of the three properties totals \$7,655,000. Because two of the properties (the West Community Policing Center and the former Fire Station #21) were originally purchased with capital funds, a portion of the total proceeds will be deposited in the Subdivision Park Trust Fund (\$86,000) and the Neighborhood Security Bond Fund (\$1,650,000). The remaining proceeds will be deposited in the General Fund (\$5,919,000), which was part of the General Fund budget balancing strategy that was included in the development of the 2020-2021 Adopted Operating Budget. The necessary budget actions related to the transfer of the properties were included in the 2019-2020 Annual Report, which went to the City Council for approval on October 20, 2020.

BUDGET REFERENCE

The table below identifies the fund and appropriation to fund the transfer of the properties recommended as part of this memo.

Fund #	Appn #	Appn. Name	Total Appn.	Amt. for Action	2020-2021 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
346	0070	Housing Loans and Grants	\$75,685,960	\$7,655,000	IX – 56	09/15/2020, Ord. No. 30476

* The 2020-2021 Adopted Operating Budget was approved on June 16, 2020 and adopted on June 23, 2020 by the City Council.

CEQA

Statutorily Exempt, File No. ER20-107, CEQA Guidelines Section 15262, Feasibility and Planning Studies.

/s/
 NANCI KLEIN
 Director of Economic Development

/s/
 JON CICIRELLI
 Director of Parks, Recreation and
 Neighborhood Services

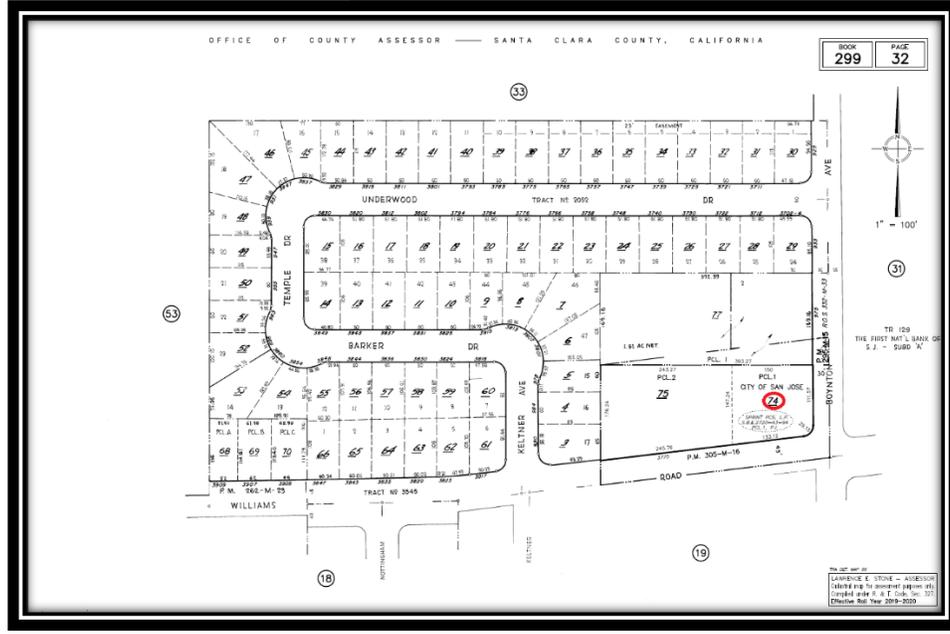
/s/
 JACKY MORALES-FERRAND
 Director of Housing

/s/
 ROBERT SAPIEN, JR.
 Fire Chief, Fire Department

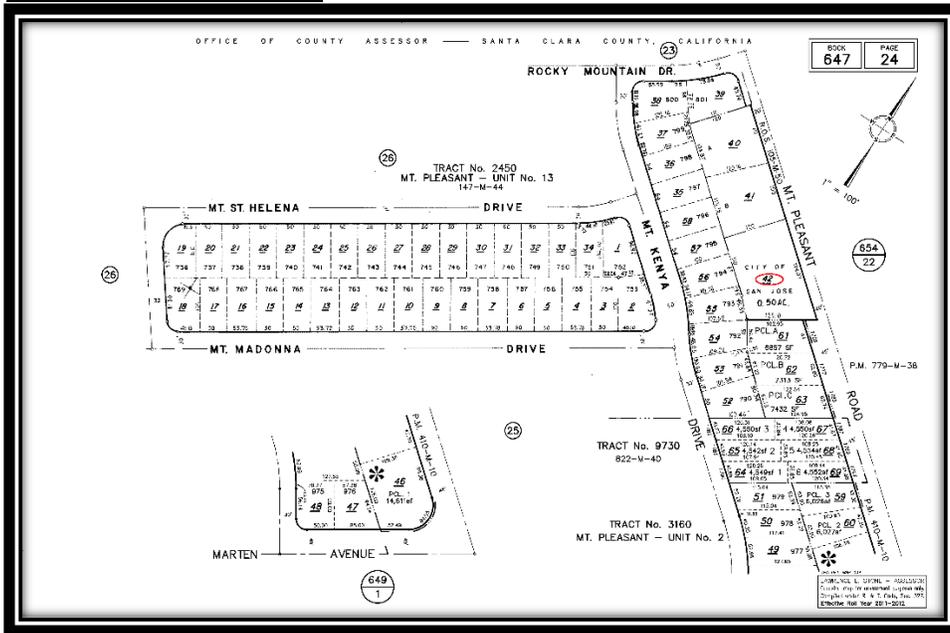
ATTACHMENT

Parcel Maps of Properties

3707 East Williams Road



1749 Mt Pleasant Road



430 Park Avenue

