



STAFF REPORT

REQUEST FOR DIRECTION ON DEVELOPMENT OF OLD CITY HALL PROPERTY – 1365 FIFTH AVENUE

Honorable Chair and Board Members:

Summary

On January 11 and 25, 2005, the RDA Board received two presentations on the development of the old City Hall property, from Habitat for Humanity and the Olson Company, respectively. These developers were the only respondents to the thirty-three Request for Proposals circulated in 2003 regarding development of the site. Following each presentation, public comments were received and the Board posed a number of questions about the proposals and the Board's options for future action.

This memo provides a summary of background information and a discussion options available to the Board. No specific notice has been provided for this item, but public testimony may be offered. Although no action is required, the Board may give direction to staff regarding next steps on the project.

Background

In 1996 the old City Hall site was transferred from the City to the Agency in exchange for \$1,400,000 of Low and Moderate Income Funds. This places the property under the state obligation to be developed for affordable housing within ten years (December 31, 2006)¹. In 1999, the City Council re-designated the southern two-thirds of the property from Commercial / Residential (C/R) to Residential – Low Density (RL). (The north end that is presently developed with the old fire station building remains designated C/R)².

The C/R designation allows up to 30 multi-family units per acre, and the maximum density allowed under the RL designation is 8 single-family units / acre, 5,000 sq. ft. minimum lot size. As applied to the subject site, the two zone categories appear to yield a total of between seven and ten units. While the site is regularly shaped and fully served with curbs, gutters, sidewalks and alley access, other factors may affect the number of potential units, including existing trees

¹ See Attachment A for City Council Resolution 8829 regarding date of purchase and extension of statutory limits on disposition or development.

² The redesignation in 1999 was to the General Plan land use map only. No zone change was adopted and the zoning remains C-2 (General Commercial). While the General Plan designation is controlling, a zone change is anticipated to be part of any development approval for the site.

and Belmont Creek, which passes under the site. Consequently, the site and land use designations combine to limit the number of detached, affordable single family homes.

Developer Response

As noted above, a total of thirty-three RFP's were distributed in 2003 and only two developers responded. The two respondents to the 2003 RFP remain interested in pursuing development of the site. Both developers understand that the project is a single-family development, and both prepared preliminary site plans in response to the RFP. In addition, each prepared a rough pro forma for the project. A summary is provided below:

	Habitat for Humanity	The Olson Company
Land Costs	(donated by Agency)	(donated by Agency)
Total Project Cost	\$2,511,752	\$3,659,000
Number of Units	10	9
Per Unit Costs	\$251,175	\$406,555
Additional City Subsidy	\$250,000 (25,000/unit)	None
Other Subsidies / Grants	\$100,000 (10,000/unit)	
Profit	None	\$ 363,000 (9%)
Total Project Budget	\$2,125,752	\$4,022,000
Est. Sales Price	\$212,575	\$428,000 – 462,000

It is staff's understanding that the projects presented on 1/11 and 1/25 reflect these pro formas and both yield a project of nine to ten affordable single-family dwellings. Staff notes that Habitat for Humanities' lower construction costs depend on donated labor and materials. With additional Agency subsidies, these units would be affordable to a household of four persons with an income of \$56,550 (very low income). The Olson Company requires a profit of 9% to make the project worthwhile, and would produce a product affordable to a household of four making up to the moderate-income limit of \$114,000 per year. However, the Olson Company proposal includes second units on each lot and a significantly higher floor area ratio than currently permitted under the R-1 limits.³

Neighborhood Outreach

The Board directed that outreach be provided to the surrounding neighbors prior to making a decision on the project. At the City Council meeting of November 23, 2004, staff was directed to send public notice to property owners within the vicinity of the site regarding the January presentations by the two developers. Notice was mailed to owners of land within 300 feet of the site as well as to owners of land along Fifth Avenue to the south. Public testimony at these meetings raised a number of issues, including:

- The impact of affordable housing on the neighborhood, especially on property values,
- The effect of development on the neighborhood:
 - On-street parking,

³ It should be noted that the no zoning compliance review was conducted on either proposal. Based on the need for a zone change to bring the zoning into conformance with the General Plan land use designation, it may be that an R-1 zone would be assigned to the site; alternatively, a PD designation for the site would allow for the consideration of a variety of development standards.

- Traffic
- Short-term construction impacts.
- The process for selecting the developers:
 - More candidate developers are needed
 - More neighborhood involvement is required.
- The site was thought to have been dedicated as a park.
- Questions on the affordability restrictions, including
 - The percent of units to be made affordable
 - The method of selecting the prospective occupants / buyers
 - The ability to restrict units to local employees / residents.
- The development proposals were too dense and not consistent with existing homes across Fifth Avenue.

Board members expressed many of these same concerns, and depending on the Board's direction, it may seek additional information on any one or more of them. However, staff has conducted a look into some of the questions raised by the neighbors and presents the following discussion.

Discussion and Analysis

The questions raised by the neighbors may require additional research, depending on the direction of the Board, as follows:

1. Impact of affordable housing on property values
It is asserted that affordable housing will have a negative affect on surrounding property values. At this time, no studies have been presented to the City to demonstrate this; however, neighbors claim that realtors have asserted such negative affects, while affordable housing developers argue otherwise. A detailed study could be commissioned to determine if this is the case, but it is not known the time or cost required to do so. It may be possible to mitigate concerns about value impacts through a project that is designed at a density and with physical features (architecture and landscaping) that create a positive contribution, consistent with the existing neighborhood.
2. The effect of any development on the neighborhood – parking, traffic and short-term construction impacts
Any development of the site will add traffic and on-street parking demand, and create short-term disruption from construction.
Parking – By providing on-site parking, the project will meet its zoning requirement and on-street parking would remain available to all. It should be noted that the use of an alley (Civic Way) for access to on-site parking would eliminate the need for driveway curb cuts on Fifth Avenue, thereby preserving existing on-street parking.
Traffic – It is not known how much additional traffic will be generated by the project, but approximately 70 to 100 vehicle trips per day can be expected (10 trips per unit x 7 to 10 units). Many of these trips will begin and end within the alley, accessed by Broadway or O'Neill. Traffic on Fifth Avenue will be less than might otherwise occur without the alley.

- Short-term Construction Impacts* – The noise, dust and debris associated with construction is typically mitigated to the extent possible with standard conditions; however, some disruption is unavoidable with any construction activity.
3. The developer selection process needs more work
The Board controls the process for selecting a developer. At any time, it may suspend the process, alter it or start anew. The current process was initiated in 2002, following a review of the Agency's housing priorities. A Request for Proposal was reviewed and approved by the Board and circulated to over thirty Bay Area developers in 2003; two responses were received.
 4. The site was previously dedicated as a park
In 1996, staff conducted research into a \$5000 donation by Elizabeth Rebec for a park (see Attachment B). Based on that research, it appears that the donation was spent on park equipment at the old City Hall site, but that no dedication of a park was ever recorded. The equipment was removed in the 1970's or 1980's, but sometime after 1952 (when it appeared on aerial photographs of the site).
 5. Criteria and restrictions on affordability
The use of the site for affordable housing is subject to RDA affordability regulations.
Percent of Affordable Units – The site must be developed with 100% of the units restricted to household making 120% or less than the median income in San Mateo County. For a household of four persons, the income limit would be \$114,000.⁴
Selecting the Prospective Occupants / Buyers – As ownership housing, the units would be sold (not rented) to household who could qualify with the income limits, but also for financing. The City's First-time Homebuyer Assistance program may also aid a prospective buyer.
Restricting Units to Local Employees / Residents – Federal housing law prohibits the absolute restriction of affordable units based on the location of someone's existing residence or job.⁵ However, it is common to establish marketing plans for affordable units that reach out to targeted groups (Belmont residents, teachers, etc.) wherein they may become first in line for the units.
 6. Development proposals were too dense and not consistent with the neighborhood
Both developers indicated that the proposals presented were preliminary, based on their respective financial models and limited Agency subsidies. Both developers also indicated a willingness to redesign the site plan based the wants and desires of the community; however, each developer stated that lower densities and / or smaller units would necessitate increased Agency subsidies to provide a financially viable project.

⁴ The full income limits for 2004 can be found in Attachment C. New income limits for 2005 are expected to be released in March 2005.

⁵ Attachment D is a list of selected occupations and their annual incomes in San Mateo County, provided by the State of California.

Next Steps

At this point, the Board may undertake one or more of a variety of options:

1. Reject both developers and direct staff to recirculate a Request for Proposal. The Board may wish to identify any specific features or elements it wants included in the new solicitation, including project description, neighborhood involvement, selection criteria and the like. Depending on the scope of a revised RFP process, there may be impacts on other Priority Calendar projects.
2. Commission a study on the impacts of affordable housing on property values. Based on the Board's expressions of concern regarding neighborhood property values, it may wish to undertake a study of the effects of similar housing on property values in other communities. This is a project that will require consulting expertise, but could be paid for by the LMI funds.
3. Undertake efforts to remove the affordability restriction on the property. The Board considered this option for the Emmett House and it is also an alternative for this property. There are a variety of issues that stem from this option which need further exploration. It may be appropriate – whether or not this alternative is selected – to conduct a study session on the details of RDA housing law as it affects the Agency's current conditions (fund balance, land holdings, etc.) It may also be desirable to develop a long-term plan for the LMI fund.
4. Select one of the two candidate developers and begin project negotiations. The Board may be prepared to move forward with either Habitat for Humanity or The Olson Company. If so, it may also wish to give direction regarding project densities, design and other aspects so that a more complete picture of the finances may be developed. It may also wish to form an ad-hoc negotiating group (Council sub-committee, neighborhood committee or other) to develop the project further.
5. Explore the use of additional subsidies to lower densities / increase amenities. Separate from any specific negotiation, the Board may want to look at project alternatives with fewer units or more design features and gauge their impact on subsidy levels from the LMI fund. An architect / site planner could be hired to provide project options and analysis.
6. Conduct a neighborhood meeting or other outreach efforts. The Board may also conduct additional outreach with the neighbors and other interested parties to consider alternative projects for the site.

The Board may have other suggestions or options it may wish to explore.

Fiscal Impact

None at this time; however, some of the options will require additional expenditures. Depending on the direction of the Agency Board, staff will return with an analysis of specific fiscal impacts and possible sources of funds.

Recommendation

Staff recommends the Council direct staff regarding the next steps regarding the project.

Alternatives

1. Suspend work on the project.
2. Provide other direction to staff.

Respectfully submitted,

Craig A. Ewing, AICP
Planning and Community Development Director

Daniel Rich
Interim City Manager

Attachments:

- A. City Council Resolution No. 8829 (August 22, 2000)
- B. Staff Memo Regarding Rebec Donation (August 22, 1996)
- C. State Income Limits for San Mateo County, 2004
- D. Average Income for Selected Occupations, San Mateo County, 2004