



## **Staff Report**

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### RESOLUTION ON A PRIVATE PROPOSAL TO REDEVELOP NORMANDY SQUARE AND FRENCH VILLAGE APARTMENTS (621 AND 641 OLD COUNTY ROAD) AS AFFORDABLE HOUSING

Honorable Mayor and Council Members:

#### **Summary**

Following Council direction, staff has researched several issues surrounding the proposal by Fairfield Residential LLC to purchase and rehabilitate the Normandy Square and French Village apartments and restrict their rent to low income households. The project will be heard by the San Mateo County Board of Supervisors in March and two draft resolutions for Council consideration – one in favor and one opposed – are attached to this report. Also attached is background information on Fairfield Residential and their proposal. Finally, staff notes that a meeting was held with Fairfield on February 17, 2005 following preparation of this report. Staff will provide a verbal update at the meeting should there be any new information. No public hearing has been scheduled, but the Council may receive public comment.

#### **Background**

The City has been notified that Fairfield Affordable Housing, LLC intends to purchase and renovate 198 apartment units at Normandy Square and French Village – 621 and 641 Old County Rd., respectively. The proposed purchase would use tax benefits, which require that the units be restricted to low income households for fifty-five years. Use of one of these benefits – tax-exempt bonds – requires that the County of San Mateo conduct a hearing on the local public benefit to be derived from the project. The County Board of Supervisors scheduled that hearing at its meeting of January 25, 2005, but continued it to March 1, 2005. The City Council has indicated its desire to provide comment on the proposed project, and directed staff to investigate several issues that have been raised regarding the project. These issues and other information are discussed below. The Council may forward to the County a resolution expressing its support or opposition to the project, or it may take no action.

The purchase of Normandy Square and French Village, as proposed by Fairfield Affordable Housing, LLC, is structured to take advantage of three tax benefits:

- Low interest bonds that are federally tax-exempt under the US Tax and Equity Fiscal Responsibility Act of 1982 ("TEFRA"),

- Federal tax credits administered by the California Treasury, and
- Exemption from state and local property taxes under Section 214(g)(1) of the State Taxation Code<sup>1</sup>

To take advantage of the bonds, the owner must preserve the units as affordable for low-income households for fifty-five years. In addition, the owner is a limited liability corporation (“LLC”). As noted above, Fairfield’s ownership would remove the properties from the property tax roles and reduce revenue to the City. Several additional issues are discussed below as a way to help the Council determine if the public benefits, if any, outweigh the costs.

## **Discussion**

### City of Belmont Action / Authority

The current proposal by Fairfield is a sale of property by one private party to another and the City has no authority over the transaction. However, the use of bonds and other tax benefits creates at least two openings for the City to influence the transaction: The TEFRA hearing at the County and the State Treasurer’s office. In both cases, the City may send a letter, resolution or other communiqué to express its opinion on the project. However, in neither case does the City control the outcome – the decisions are in the hands of other agencies<sup>2</sup>. This memo and attached resolutions are provided to assist the Council in deciding what kind of message, if any, it wishes to forward to the County or State.

Each of the issues below has some bearing on whether the project has a positive or negative overall effect on the community. Based on the Council’s view on the benefits and losses resulting from the project, it may adopt a position to forward to the County and State.

### Tax-exempt Bonds

As noted above, the buyer proposes to finance the sale / rehabilitation with bonds issued under the US Tax and Equity Fiscal Responsibility Act of 1982 (“TEFRA”) through the California Communities Program administered in cooperation with the League of California Cities. These bonds are offered at a lower rate of interest and are exempt of federal income tax. They are issued for a term of fifteen years. Fairfield reports that they completed the following projects in the Bay Area using these bonds:

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<sup>1</sup> This section provides that property used for rental housing and owned by an exempt organization, such as a 501(c)(3) corporation, a limited partnership or limited liability company shall be exempt from property taxation.

<sup>2</sup> The City may have authority at some time in the future, should the project apply for Design Review. No application for any zoning entitlement has been submitted at this time. Building permits will also be required for any work on the buildings, but these permits are considered ‘ministerial’ and not subject to local discretion.

Property	Location	Year	Units	Year Built	Purchase	Redev't Amount	
					Date	\$	Per Unit
Wyndover	Novato	2004	136	1963-66	10/2004	\$1,536,800	\$11,300
Trestles	San Jose	2004	71	1961	03/2004	\$1,597,000	\$22,493
Baycliff	Richmond	2004	342	1975	01/2004	\$4,275,000	\$12,500
Turnleaf	San Jose	2003	152	1970	02/2003	\$3,344,000	\$22,000
Thornbridge	San Jose	1999	286	1972	05/1999	\$2,657,000	\$9,290

There is no direct fiscal impact on the City of Belmont by use of the bonds – no City or RDA funds are spent on the bonds or on the property because of the bonds. As a member of the League, the City may support or oppose the financing as a condition precedent<sup>3</sup>.

Tax Credits

The buyer further proposes to finance the sale / rehabilitation with federal and state tax credits issued through the California Tax Credit Allocation Committee (CTCAC). The CTCAC program is competitive provides investment in affordable rental housing for lower-income families and individuals. Federal and state tax credits, allocated by the Committee over a period of 10 years, are intended to assist in the creation and preservation of affordable housing by enabling affordable housing sponsors to raise project equity through the sale of tax benefits to investors.

It is through this program that the state requires a percentage of units to be preserved as affordable for low-income households for fifty-five years. Fairfield Residential proposes to preserve half of the units for households making 50% or less of the county median and half of the units for households making 60% or less. There is no direct fiscal impact on the City of Belmont by use of the tax credits – no City or RDA funds are spent on the tax credits or on the property because of the credits. The State Treasurer’s Office intends to hold public hearings on the tax allocation in March of 2005 and the City may support or oppose the allocation of credits<sup>4</sup>.

Property Tax Exemption

Separate from the TEFRA bonds, the property owners propose to use Section 214 (g)(1) of the California Revenue and Taxation Code to exempt the properties from state and local property taxes. This is allowed whenever a not-for-profit or limited liability organization owns rental housing. In 2004, the properties generate \$23,601 in property taxes to the City. Based on the

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<sup>3</sup> James Hamill, Program Administrator, California Communities

<sup>4</sup> Lynn Wehrli, Executive Director, CTCAC

proposed purchase price of \$27 million, the Finance Department estimates that the fiscal loss to the City and South County Fire at approximately \$3.7 million (present value), assuming the units are held by an tax-exempt owner for fifty-five years. For comparison purposes, if the properties were not sold, the current assessed valuation of \$9.9 million would yield a tax stream over fifty-five years of \$1.3 million (present value).

#### Provision of Affordable Housing

Staff understands from information provided by Fairfield Residential, LLC that the units are presently renting in the open housing market (unrestricted) for rents similar to the permitted rents under the low-income category (\$1000 - \$1200 / mo.) Under the terms of the proposal, about 10 – 15% of the units would be restricted to 50% of median incomes and the remainder would be restricted to 60% of median incomes. It appears that at this time the effect of the proposed affordability restriction would not have a significant impact on the City's actual inventory of affordable housing. However, if rental-housing costs substantially increase in the future, these units may no longer be affordable to lower income households. Consequently, the proposed fifty-five year affordability restriction would assure that lower income households would have viable housing options in Belmont well into the future.

#### Location / Concentration of Affordable Housing

Another consideration besides the number and type of housing units is their location and distribution. In this case, nearly two hundred units deed-restricted low-income housing would be located within a single campus of buildings. There are concerns about concentrating affordable housing into one area, especially since the City has demonstrated that such concentration may be partly responsible for the high levels of police and fire response previously demanded of these two apartment projects (see below, "Public Service Impacts"). In addition, the project is located in the Sterling Downs Neighborhood, which presently hosts 20% (forty-three units on four sites) of the City's 223 income restricted or special needs housing units. Adding 198 additional units would nearly double the number of assisted, affordable units in the City – a worthy goal on its own – but place over half of them in one neighborhood. An alternative for providing affordable housing would be to create smaller complexes throughout the downtown area to better combine lower, moderate and above moderate household into a diverse, mixed use community rather than create concentrations of stratified income groups.

#### Rehabilitation of Housing Stock

Presently the two apartment projects are in inferior physical condition. According to Fairfield, they require seismic upgrades, new plumbing, and exterior and interior refurbishing (paint, carpeting, appliances, fixtures, etc.)<sup>5</sup> Fairfield proposes to correct these deficiencies by spending about \$7 million to rehabilitate the properties (approximately \$35,000 per unit). As shown in the chart above (see above, "Tax Exempt Bonds") the rehab investment is higher than other projects

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<sup>5</sup> South County Fire reports that both apartment projects are up-to-date with fire inspections with no unusual problems noted.

undertaken in the Bay Area by Fairfield. It is also a significant investment in the city's housing stock as the units represent about 5% of the City's entire inventory multi-family dwellings. The investment could provide a benefit to the immediate neighborhood by improving the visual appearance and function of a significant and visible block of apartments on Old County Road.

**Public Service Impacts**

In order to gain some understanding of the proposal's potential impact on public services, the Belmont Police Department researched the number of calls for services to the Normandy Square and French Village and compared them with Crestview Apartments which are a bit farther north on Old County Road.<sup>6</sup> Belmont PD chose Crestview because they are similar in make up to the subject properties, with the exception that Crestview has security patrols at night (see chart below).

<b>Belmont Police – Calls for Service 2004</b>			
<b>Location</b>	<b>No. of Units</b>	<b>Calls for Service</b>	<b>On-Site Security</b>
<b>Normandy Square</b> 621 thru 639 Old County Rd	98	161	No
<b>French Village</b> 641 thru 655 Old County Rd	100	148	No
<b>Total</b>	<b>198</b>	<b>309</b>	--
<b>Crestview Apts.</b> 506 thru 516 Crestview Ave, 205 thru 309 Old County Rd	220	95	Yes

Based on the similarity in size between the combined Normandy Square / French Village complex and Crestview Apartment, it is clear that the subject units presently require over three times as many police service calls (1.56 calls / unit versus 0.43 calls / unit).

It is difficult to determine the exact impact on-site security may have in reducing the number of public service calls given that a variety of factors (including level of maintenance, tenant mix, and surrounding land uses) make the difference between a successful or troublesome complex. However, it can be reasonably assumed that regular night patrols would reduce the level of criminal activity and thereby lower the claim on public resources. At this time Fairfield has not proposed on-site security patrols, though they indicate that one management person and one maintenance person will live within the complex. If so, that would provide some level of oversight, but probably not as effective in reducing illegal behavior as regular security patrols.

Staff cannot determine if the overall program of ownership, maintenance and management

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<sup>6</sup> South County Fire also reviewed their call history and determined that Belmont Police records was more detailed, yet also provided a reasonable reflection of the level of fire response calls.

proposed by Fairfield, Residential will result in lower costs to the City. However, Fairfield has significant experience around the country owning, building and managing multi-family rental properties, both new and refurbished.<sup>7</sup> Belmont PD contacted the City of Novato in which Fairfield purchased and refurbished in 2004 a 136-unit apartment project originally constructed in the mid 1960's. At the time this report was prepared, Novato Police had not yet responded to our request. Staff will present any new information to the Council at the meeting.

#### General Plan Land Use and Housing Element Impacts

The Belmont General Plan and especially the Housing Element have a number of goals and policies that are germane to this proposal:

#### General Plan Community Goals and Policies

2. *To preserve and enhance the attractive, family-oriented and tranquil quality of Belmont's residential neighborhoods.*
  
4. *To maintain and enhance the appearance of the city through controlling the location, timing, design and landscaping of new development and encouraging renovation of older areas.*

#### Land Use Element / Residential Areas Goals

1. *To preserve and, where needed, enhance the present character of established residential areas.*
2. *To address the housing needs of traditional families, senior citizens and young adults by encouraging a mix in housing type, design and cost.*

#### Land Use Element / Residential Areas Policies

2. *A variety of types and densities of residential uses should be provided to meet the needs of the different life styles and incomes of the people who live in the community.*
  
5. *In high density residential areas dwelling types should be commonwall and/or multi-level. Each dwelling unit should have some usable private outdoor space, but facilities such as laundry, recreation, parking, and garbage storage should be provided for joint use.*

#### Housing Element Goals and Policies

*GOAL 1: Assure the quality, safety, and livability of existing housing and the continued high quality of residential neighborhoods.*

*Policy 1.3 Continue to promote the repair, revitalization, and rehabilitation of residential structures that have fallen into disrepair.*

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<sup>7</sup> As of June 2004, they reported managing nearly 54,000 apartment units in twenty-seven markets nationwide.

*GOAL 3: Expand and protect housing opportunities for all economic segments and special needs groups within the community.*

*Policy 3.1 Use public financial resources, to the extent feasible, to support the provision and production of housing for lower income households and persons and families with special needs.*

*Policy 3.3 Support the conservation of government-subsidized housing and other affordable housing development.*

*GOAL 4: Where appropriate, mitigate unnecessary governmental constraints to the maintenance, improvement, and development of housing.*

*Policy 4.4 Support infill and mixed-use development at suitable locations and provide, where appropriate, incentives to facilitate their development.*

Each of these goals and policies support the provision of housing, including maintaining and improving affordable multi-family housing, in a manner compatible with the primarily residential character of the community. The also speak to the quality and character of our neighborhood. The Fairfield proposal preserves 198 existing multi-family units as affordable for low-income households and improves the physical units.

The Housing Element also sets a number of units that the City must make adequate provisions for during the period from 2001-2006. Known as the Regional Housing Needs Determination (RHND), this quantitative goal is broken down by income groups, as follows:

Income Group (% of County MFI)	RHND Allocation		Actual Production 2001to present
	Percentage	Units	
Very Low (50% or less)	18%	57	0 <sup>8</sup>
Low (51 to 80%)	9%	30	0
Moderate (81%-120%)	25%	80	0
Above Moderate (120%+)	47%	150	184 (est.)
Total	100%	317	184

<sup>8</sup> Twenty-five very low-income units are under construction by the Mental Health Association of San Mateo County at 800 F Street.

Sources: Association of Bay Area Governments, November 2000  
State Department of Housing and Community Development

The RHND numbers are intended to be satisfied with new units. However, under specific circumstances, State law allows 25% of existing units to be counted toward the RHND when a residential property is converted to restricted affordable units for very low or low-income households. The California Department of Housing and Community Development must conduct a detailed compliance review before a determination can be made, and no such review has been performed on the Fairfield proposal. As a result, it can only be assumed that between zero and forty-nine units may apply to Belmont's RHND from this project, if it goes forward.

### **Fiscal Impact**

As previously noted, the fiscal impact of the project, as proposed, could result in the loss of local property tax revenue of up to \$3.7 million (present value).

### **Public Contact**

Posting of City Council agenda and notification to Fairfield Residential LLC

### **Recommendation**

It is recommended that the Council provide direction by adopting one of the two attached resolutions:

1. Supporting the proposed purchase / rehabilitation as having a net positive public benefit, or
2. Opposing the proposed purchase / rehabilitation as having a net negative public benefit.

### **Alternatives**

1. Take no action.

### **Attachments**

- A. Resolution to the San Mateo County Board of Supervisors in favor of the project (draft).
- B. Resolution to the San Mateo County Board of Supervisors opposed to the project (draft).
- C. Application by Fairfield Residential LLC for Tax-Exempt Housing Bonds

Respectfully submitted,

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Craig A. Ewing, AICP  
Planning and Community  
Development Director

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Daniel Rich  
Interim City Manager

**RESOLUTION NO. \_\_\_\_\_**

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BELMONT SUPPORTING THE USE OF TAX-EXEMPT BONDS FOR THE PURCHASE OF LOW INCOME HOUSING AT 621 AND 641 OLD COUNTY ROAD (FRENCH VILLAGE AND NORMANDY SQUARE) BY FAIRFIELD RESIDENTIAL, LLC

**WHEREAS**, the City Council of the City of Belmont, has determined that two adjacent apartment properties totaling 198 units, specifically French Village and Normandy Square at 621 and 641 Old County Road (the “Apartments”) are proposed to be purchased by Fairfield Residential, LLC, a private limited liability corporation; and,

**WHEREAS**, the Council has learned that the proposed financing associated with the purchase of the Apartments would include the following tax benefits:

1. Tax-exempt bonds issued by the California Statewide Communities Development Authority (“CSCDA”), which offers low-cost, tax-exempt financing for housing projects in the Stat of California,
2. Federal tax credits issued by the State Treasurer of the State of California, and
3. Relief from local and state property taxes, as allowed to specified owners, including limited liability corporations.

**WHEREAS**, the use of the tax-exempt bonds and the federal tax credits each require that the Apartments be restricted to low-income occupancy, with rents limited to those which can be afforded low-income households, as determined by the State Department of Housing and Community Development and which are typically fifty to sixty percent of the median income of households of San Mateo County; and

**WHEREAS**, the CSCDA tax-exempt bonds proposed to be used to finance the purchase of the Apartments require a public hearing before the San Mateo County Board of Supervisors to identify if there are public benefits to support the use of such tax-exempt bonds; which said hearing was scheduled on January 25, 2005 and continued to March 1, 2005; and

**WHEREAS**, the State Treasurer of the State of California may also receive public comment on the issuance of federal tax credits for local development projects; and

**WHEREAS**, the City Council has received a staff report, dated February 22, 2005 that review of some of the issues related to the use of such tax benefits and the project’s potential impact on the community.

**NOW, THEREFORE, BE IT RESOLVED** that the Redevelopment Agency of the City of Belmont:

1. Determines that the result of the proposed purchase, including the tax benefits and their associated consequences would be a net public benefit because:
  - a.

- b.
- c.
- 2. Directs the City Manager to forward this resolution to the Chair of the Board of Supervisors of San Mateo County for consideration at their hearing of March 1, 2005 on the matter
- 3. Directs the City Manager to forward this resolution to the State Treasurer of the State of California for consideration in the issuance of tax credits on this proposed purchase.

\* \* \* \* \*

I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the City Council of the City of Belmont at a regular meeting thereof held on February 22, 2005 by the following vote:

AYES, DIRECTORS: \_\_\_\_\_

NOES, DIRECTORS: \_\_\_\_\_

ABSTAIN, DIRECTORS: \_\_\_\_\_

ABSENT, DIRECTORS: \_\_\_\_\_

\_\_\_\_\_  
City Clerk of the City of Belmont

APPROVED:

\_\_\_\_\_  
Mayor, City of Belmont

**RESOLUTION NO. \_\_\_\_\_**

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BELMONT OPPOSING THE USE OF TAX-EXEMPT BONDS FOR THE PURCHASE OF LOW INCOME HOUSING AT 621 AND 641 OLD COUNTY ROAD (FRENCH VILLAGE AND NORMANDY SQUARE) BY FAIRFIELD RESIDENTIAL, LLC

**WHEREAS**, the City Council of the City of Belmont, has determined that two adjacent apartment properties totaling 198 units, specifically French Village and Normandy Square at 621 and 641 Old County Road (the “Apartments”) are proposed to be purchased by Fairfield Residential, LLC, a private limited liability corporation; and,

**WHEREAS**, the Council has learned that the proposed financing associated with the purchase of the Apartments would include the following tax benefits:

4. Tax-exempt bonds issued by the California Statewide Communities Development Authority (“CSCDA”), which offers low-cost, tax-exempt financing for housing projects in the Stat of California,
5. Federal tax credits issued by the State Treasurer of the State of California, and
6. Relief from local and state property taxes, as allowed to specified owners, including limited liability corporations.

**WHEREAS**, the use of the tax-exempt bonds and the federal tax credits each require that the Apartments be restricted to low-income occupancy, with rents limited to those which can be afforded low-income households, as determined by the State Department of Housing and Community Development and which are typically fifty to sixty percent of the median income of households of San Mateo County; and

**WHEREAS**, the CSCDA tax-exempt bonds proposed to be used to finance the purchase of the Apartments require a public hearing before the San Mateo County Board of Supervisors to identify if there are public benefits to support the use of such tax-exempt bonds; which said hearing was scheduled on January 25, 2005 and continued to March 1, 2005; and

**WHEREAS**, the State Treasurer of the State of California may also receive public comment on the issuance of federal tax credits for local development projects; and

**WHEREAS**, the City Council has received a staff report, dated February 22, 2005 that review of some of the issues related to the use of such tax benefits and the project’s potential impact on the community.

**NOW, THEREFORE, BE IT RESOLVED** that the Redevelopment Agency of the City of Belmont:

4. Determines that the result of the proposed purchase, including the tax benefits and their associated consequences would not be a net public benefit because:
  - a.

- b.
- c.
- 5. Directs the City Manager to forward this resolution to the Chair of the Board of Supervisors of San Mateo County for consideration at their hearing of March 1, 2005 on the matter
- 6. Directs the City Manager to forward this resolution to the State Treasurer of the State of California for consideration in the issuance of tax credits on this proposed purchase.

\* \* \* \* \*

I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the City Council of the City of Belmont at a regular meeting thereof held on February 22, 2005 by the following vote:

AYES, DIRECTORS: \_\_\_\_\_

NOES, DIRECTORS: \_\_\_\_\_

ABSTAIN, DIRECTORS: \_\_\_\_\_

ABSENT, DIRECTORS: \_\_\_\_\_

\_\_\_\_\_  
City Clerk of the City of Belmont

APPROVED:

\_\_\_\_\_  
Mayor, City of Belmont