



DATE: September 23, 2008

TO: Mayor and City Council

FROM: Director of Community and Economic Development

SUBJECT: Approval of the Terms for an Amended Inclusionary Housing Agreement with Citation Homes Central for Fulfillment of the Inclusionary Housing Ordinance Obligations for the Cannery Place Development

RECOMMENDATION

That Council adopts the attached resolution :

Authorizing the City Manager to negotiate and execute an Amendment to the Inclusionary Agreement with Citation Homes Central (Citation) for Fulfillment of the Inclusionary Housing Ordinance (the Ordinance) Obligations in Connection with the Cannery Place Development.

BACKGROUND

On December 13, 2005, the City Council approved applications submitted by the Felson Companies and Citation for the development of 628 units (612 condominiums and 16 duet-style homes) located on the former Hunt/Wesson Cannery facility, North of Winton Avenue and west of Myrtle Street. The following year, Citation purchased the Felson property and became responsible for the implementation of both projects.

As part of the approval process, both projects were required to satisfy the City's inclusionary housing requirement to set aside at least 15% of the units as affordable. However, because of the Cannery's location within the Redevelopment Agency Project Area, the conditions of approval required Citation to set aside 6% (38) off-site units to very low-income households and 9% (57) on-site for-sale units to moderate-income households.

At the end of May of 2007, the City and Citation entered into an Inclusionary Housing Agreement (IHA) in order to memorialize Citation's obligation to produce the very low and moderate-income units. The IHA also memorialized a binding schedule for the delivery of all the units and established the procedures for the release of all the units from the IHA through a recordable release.

Citation has satisfied its obligation to produce very-low income units by providing a cash subsidy and land for the development of 60 units of affordable rental housing for seniors at the C & Grand

apartment complex developed by Eden Housing, Inc. (Eden). This development was completed this past summer. Citation's obligation under the existing IHA, to produce 57 units of affordable ownership housing for moderate income households has not been completed.

DISCUSSION

In 2007, Citation transferred a portion of the Cannery Place project – Cannery Place tract 7613 – to Meritage Homes. Meritage started construction of the model units, but subsequently stopped construction, leaving some unfinished homes abandoned. Weyerhaeuser Realty Investors (WRI), who provided land financing to Meritage, has now acquired tract 7613.

As previously noted, the obligation to produce 38 very low-income units has been satisfied by facilitating the construction of the Hayward Senior Housing project located at C & Grand. Of the 57 on-site moderate-income units, because of the above described transfer, Citation has the obligation to produce 41 units and WRI (or its successor) has to produce 16 units.

Given the downturn in the residential for-sale housing market and Eden Housing Inc.'s desire to construct a twenty-five unit affordable senior housing development adjacent to complement its existing C and Grand affordable senior housing development, Citation has requested for itself and on behalf of WRI that the City amend and restate the IHA to permit Citation to meet its obligations under the Ordinance through a combination of land donation, off-site construction and an in-lieu fee payment. Eden will present a separate development application for the Senior Development which will require its own discretionary planning approvals and will likely require a zoning change. The project's design will be required to be consistent with the existing C and Grand Hayward Senior Housing complex and the residential structures on B Street.

The following are the specific terms requested by Citation for an Amended IHA:

Payment for Construction of Senior Housing Development

Citation proposes to make a payment of \$1,017,600 to provide the gap financing ("Gap Financing") for the development of 25 new additional units of affordable rental senior housing at the corner of B and Grand Streets (adjacent to the newly built Hayward Senior Housing) (the "Senior Development"). - Eden desires to construct the Senior Development to provide additional affordable housing to very low income seniors in the City.

Citation proposes to pay the Gap Financing in two installments: the first at loan closing of the construction financing for the Senior Development; the second at closing of the permanent financing which happens at the end of construction. To ensure that such payment is made in a manner that is consistent with the requirements of the Ordinance, staff recommends that the Gap Financing be paid prior to issuance of the first building permit for Citation's project or secured at that time by an approved letter of credit.

Depending on the financing used by Eden, the amount of the Gap Financing needed for the Senior Development may vary. Citation proposes that if the amount of Gap Financing needed for the

senior development is lower than the \$1,017,600 amount, the City will retain the difference. Pursuant to the Ordinance, these funds will be deposited in an Affordable Housing Trust Fund (Housing Trust) and used to develop affordable housing units. In addition, Staff recommends that if Eden is unable to construct the Senior Development in accordance with the City's requirements, the City shall retain all \$1,017,600 in the City's Housing Trust and may use such funds for other affordable housing activities.

Contribution of Land for Senior Housing Development

Citation proposes to provide land located at the corner of Grand and B Street for the Senior Development (or such other affordable housing development) as may be approved by the City. The land is reportedly valued at \$1,125,000. Because the proposed amendment is contingent upon planning approvals as well as financing for the proposed Senior Development, staff proposes that the amendment provide that the land be transferred to the City, the Redevelopment Agency or its designee (Eden Housing) at the City/Agency's option and in a condition acceptable to the City. If the proposed senior housing development proceeds ahead of the Citation development, the land could be transferred directly to Eden Housing.

Payment by WRI

The developer proposes a payment from WRI or its assignee to the City in the amount of \$63,600 for each of the 16 units encumbering WRI's portion of the project, for a total of \$1,017,600. Citation proposes payment of this amount following the same installment schedule as Citation's payment of the gap financing to Eden.

Section 10-17.600(d) of the City's Inclusionary Ordinance permits the City Council to choose to accept a combination of on-site construction, off-site construction, in-lieu fees and land dedication that at least equal the cost of providing the Affordable Units on-site. While the above described proposal reduces the actual number of units constructed, it will permit the construction of 25 units of rental housing at deeper affordability levels than the 57 moderate income units that Citation originally agreed to construct. In addition, the City's Affordable Housing Trust fund will receive over \$1 Million of additional funds which the City can dedicate to additional affordable housing activities.

The Senior Housing Development will be a strong complement to the existing Eden C and Grand Hayward Senior Housing Development and will promote transit oriented development on a currently vacant lot. Given the existing slowed housing starts and the fact that the state bond financing for affordable housing is quickly being expended, the Citation proposal offers a valuable and timely opportunity to the City to ensure that the a transit oriented affordable housing resource is constructed in the City. In addition, the Citation proposal will make available one million dollars in additional funds for other affordable housing development proposals.

Citation is aware that it will need to satisfy the obligation to provide the moderate-income units at the Libitzky property, when and if that site is developed. However, the requirement to produce the

very low-income units has also been satisfied for the Libitzky site as result of the construction of Eden's Hayward Senior Housing.

Proposed Community Facilities District

In addition to complying with the Ordinance in the above-described manner, Citation will facilitate assessment of Community Facilities District (CFD) fees for increased police protection in the Cannery Area. It is estimated that the CFD fees will be established so as to reflect the cost of providing three (3) full-time police officers. Based on preliminary studies, it is estimated that the CFD fees will start at \$465.00 per home for the first year and increase annually thereafter to adjust for actual costs of service, including labor contract escalations and other direct costs. Thus, assessments from the proposed 628 units would amount to \$292,020 the first year. The Finance Department is leading the formation process of the CFD. A separate item will be brought to Council by the City Manager's Office to provide an update and more details on this process.

FISCAL IMPACT

As a result of the Inclusionary requirements, the land donation and cash contributions will facilitate the creation of a City Affordable Housing Trust Fund and permit the development of 25 off-site very low income senior housing units. The establishment of the CFD will provide funding for three additional full-time police officers once fully established.

PUBLIC CONTACT

Pursuant to the Ordinance, Council may provide discretionary approval of this type of requests on a case by case basis if it determines that there are overriding conditions affecting the project. Therefore there is no additional public contact required for the approval of the proposed deal terms for an Amended IHA.

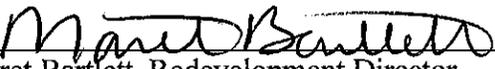
Any Council, Planning Commission, and other approvals of projects related to this request (i.e. the 25-unit senior housing) would require public notice. The appropriate public contact procedures will be followed when those approvals are requested.

NEXT STEPS

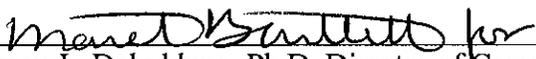
Based on the deal terms and staff recommendations described in this report, an Amendment to the IHA will be drafted by Goldfarb and Lipman, LLP, the City's outside legal counsel for affordable housing. The Amendment will be executed by both parties and will bind the Citation and WRI projects. The Amendment shall also provide for an affordability restriction to be recorded against title to the B and Grand Street Property. Finally, the amendment to the IHA will be conditioned upon Eden Housing obtaining entitlements and any necessary CEQA authority to construct the proposed Senior Development contemplated in this staff report, and the establishment of the above-described Community Facilities District (CFD).

Separate items will be later brought to Council to a) provide an update and more details on the CFD formation process, and b) request development and planning approvals for the 25-unit senior housing project.

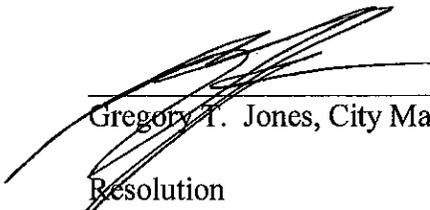
Prepared by:


Maret Bartlett, Redevelopment Director

Recommended by:


Susan J. Daluddung, Ph.D, Director of Community and Economic Development

Approved by:


Gregory I. Jones, City Manager

Resolution

DRAFT

HAYWARD CITY COUNCIL

Resolution No. 08-

Introduced by Council Member _____

me
9/17/08

RESOLUTION AUTHORIZING THE CITY MANAGER TO NEGOTIATE AND EXECUTE AN AGREEMENT TO AMEND THE INCLUSIONARY HOUSING AGREEMENT CURRENTLY RECORDED AGAINST TITLE TO THE CANNERY DEVELOPMENT IN THE CITY OF HAYWARD (TRACT NOS. 7613, 7625, 7748, AND 7749) (THE "PROPERTY").

WHEREAS, the City of Hayward previously entered into that certain Inclusionary Housing Agreement Dated May 31, 2007 (the "Original Agreement"), with SCS Development Company, a California Corporation (dba Citation Homes Central); and

WHEREAS, the Original Agreement required that certain inclusionary housing units be constructed on the Property; and

WHEREAS, Citation Homes Central and Weyerhaeuser Realty Investors ("WRI"), (collectively, the "Developer") currently own the Property; and

WHEREAS, as a result of changes in the housing market, and a desire by Eden Housing, Inc. to construct an affordable senior housing development on B and Grand Streets (the "Senior Housing Development"), adjacent to Eden's new C and Grand Development, the Developer and Eden have requested that the City permit the Developer to meet its obligations under the Inclusionary Ordinance by donating certain land and providing additional cash payments that will both enable the construction of the Senior Housing Development and further fund the City's Affordable Housing Trust Fund; and

WHEREAS, Section 10-17.600 of the City's Inclusionary Housing Ordinance permits the Developer to meet its inclusionary obligations through a combination of on-site construction, off-site construction, in-lieu fees and land dedication that at least equal the cost of providing the affordable units on-site as would otherwise be required by this Article.

NOW THEREFORE BE IT RESOLVED THAT by the City Council that for the reasons set forth in this resolution and in the Staff Report accompanying this resolution, the City Manager is authorized to negotiate and execute an agreement to amend the Original Agreement in a form to be approved by the City Attorney, and any such agreement shall incorporate the terms and staff recommendations outlined in the Staff Report.

