



STAFF REPORT—CITY COUNCIL MEETING

June 4, 2014

TO: Honorable Mayor and City Council Members

FROM: David Loya, Community Development Deputy Director

DL 5/28/14

DATE: May 28, 2014

Agenda Title: Adopt Resolution Numbers 134-60 a resolution of the City Council of the City of Arcata authorizing the commitment of up to \$766,250 of Community Development Block Grant (CDBG) Program Income (PI) to assist with offsite infrastructure in support of affordable housing on the O Street Affordable housing project, also known as Redwood Ponds Affordable Housing Project; the transfer of said funds from the CDBG Housing Revolving Loan Account to satisfy this commitment; and the submission of a program income waiver seeking authorization from the CDBG program to conduct the activity and 134-61 a resolution of the City Council of the City of Arcata authorizing a loan of up to \$613,000 of CDBG PI to assist with offsite infrastructure in support of affordable housing on the O Street affordable housing project, also known as Redwood Ponds Affordable Housing Project.

RECOMMENDATION: It is recommended that the City Council:

- 1) Open the public hearing and accept any testimony; and
- 2) Adopt Resolution Numbers 134-60 and 134-61;

INTRODUCTION: This public hearing to consider loaning Danco Communities \$613,000 plus activity delivery funds from the City's locally held Community Development Grant Block (CDBG) Program Income (PI) was continued from the Council's May 21, 2014, meeting. The project will result in 17 income restricted units and a managers unit on the southern portion of the former Reid and Wright Lumber Mill. The City's funds would be used to build infrastructure in support of the affordable housing project. While the CDBG scope is limited to the offsite infrastructure, the project also seeks to realign Jolly Giant Creek from its current location adjacent to the subject parcel to the parcels east of the railroad. In addition, if feasible, the three relocated HSU houses will be rehabilitated and offered for sale to low-income homebuyers. Staff recommends the Council approve the loan and authorized the transfer of funds from the CDBG PI Homebuyer Assistance Revolving Loan Account (RLA) to fund the loan and to submit a PI waiver request to the CDBG program by adopting Resolution Numbers 134-60 and 134-61.

DISCUSSION: The Redwood Ponds project is a component of a larger series of projects that, while related, may be on different timeframes. The Redwood Ponds Project is a 17-unit affordable housing project on 12th and 13th Streets. Ancillary, but closely related, to this project is the rehabilitation of the three HSU homes, which are scheduled to be sited with frontage on O Street, between 12th and 13th Streets. Finally, the City, Danco, and the Arcata Volunteer Fire Department have been working to relocate Jolly Giant Creek on to the Volunteers' property adjacent to the Redwood Ponds project site. The City's goal has been to achieve all three projects in one related action.

The proposed housing project will add 17 to 20 affordable housing units to the City's affordable housing stock, depending on whether the three HSU houses are rehabilitated in conjunction with the Redwood Ponds project. The Redwood Ponds project is an 18-unit affordable housing Tax Credit project with one market rate manager's unit. This project can be designed around the existing patent lot configuration without additional

discretionary review; this is an important distinction for the project to satisfy the Tax Credit requirements for this first round application. While the City's goal is to

The creek realignment project is also ancillary to the Redwood Ponds project. Because there are key decisions that must be made before the work can be done, and because these decisions are beyond the control of the project, this goal may not be achievable within the scope of the affordable housing project. Instead, the realignment project is tied to the work that can be permitted to be done given potential contamination in the new creek site. The creek realignment and HSU house rehabilitation components are highly desirable and will be implemented if feasible given the timing and other constraints.

CDBG regulations currently require the City to submit a program income waiver application if it wishes to commit funds to the Redwood Ponds project. Resolution 134-60 will authorize submission of the waiver application and the transfer of funds necessary from the Housing RLA to PI so it can be used for the project. Resolution 134-61 will authorize the loan according to the loan terms included in the resolution. In brief, the loan will be a 55 year term at 3% with residual receipts. The anticipated repayment timeframe is between 15 and 55 years, depending on the project's cashflow.

BUDGET/FISCAL IMPACT: The total repayment is estimated to be more than \$900,000 depending on residual receipts.

ATTACHMENTS:

- A. Resolution No. 134-60
- B. Resolution No. 134-61

RESOLUTION NO. 134-60

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ARCATA
AUTHORIZING THE COMMITMENT OF UP TO \$766,250 OF COMMUNITY
DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM INCOME TO ASSIST WITH
OFFSITE INFRASTRUCTURE IN SUPPORT OF AFFORDABLE HOUSING ON THE
O STREET AFFORDABLE HOUSING PROJECT, ALSO KNOWN AS REDWOOD
PONDS AFFORDABLE HOUSING PROJECT; THE TRANSFER OF SAID FUNDS
FROM THE CDBG HOUSING REVOLVING LOAN ACCOUNT TO SATISFY THIS
COMMITMENT; AND THE SUBMISSION OF A PROGRAM INCOME WAIVER
SEEKING AUTHORIZATION FROM THE CDBG PROGRAM TO CONDUCT THE
ACTIVITY**

WHEREAS, Danco Communities is planning to construct 18 units of housing affordable to low- and very-low income Arcata residents at the O street property located at O Street between 12th and 13th Streets, and

WHEREAS, The project has received an HCD infill infrastructure grant but requires additional funding to complete off-site improvements; and

WHEREAS, The existing streets surrounding the site are not paved or are in substandard condition, and require rehabilitation; and

WHEREAS, The reprogrammed CDBG funding will be used for offsite infrastructure and not for direct construction of any housing units; and

WHEREAS, The project will be required to meet prevailing wage and all other federal overlay requirements associated with the CDBG funding; and

WHEREAS, The City has an approved CDBG Reuse Plan and under this Plan the City will be utilizing the waiver method, and

WHEREAS, the City has reviewed the citizen participation plan for compliance with federal statutes and determined that this plan was followed for the approval of these CDBG Program Income funds,

NOW THEREFORE BE IT RESOLVED by the City Council of the City of Arcata as follows:

1. The Finance Director is authorized to transfer of up to \$766,250, including loan amount, activity delivery, and admin associated with carrying out the activity, from the Housing Revolving Loan Account to a CDBG Program Income Waiver for infrastructure in support of affordable housing for the Redwood Ponds Affordable Housing Project contingent on HCD approval of a Program Income Waiver Request;
2. The Community Development Director is designated the CDBG Authorized Representative, and is authorized to submit a Program Income Waiver Request for the

- proposed infrastructure in support of affordable housing project, and sign all necessary documents to clear the activity with the CDBG Program;
3. The Community Development Deputy Director is appointed the National Environmental Policy Act Environmental Officer for the activity and is authorized to prepare the environmental documents;

DATED:

ATTEST:

APPROVED:

City Clerk, City of Arcata

Mayor, City of Arcata

Clerk's Certificate

I hereby certify that the foregoing is a true and correct copy of Resolution No. 134-60, passed and adopted at a regular meeting of the City Council of the City of Arcata, Humboldt County, California held on the 4th day of June, 2014 by the following vote:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

City Clerk, City of Arcata

RESOLUTION NO. 134-61

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ARCATA
AUTHORIZING A LOAN OF UP TO \$613,000 OF COMMUNITY DEVELOPMENT
BLOCK GRANT (CDBG) PROGRAM INCOME TO ASSIST WITH OFFSITE
INFRASTRUCTURE IN SUPPORT OF AFFORDABLE HOUSING ON THE O STREET
AFFORDABLE HOUSING PROJECT, ALSO KNOWN AS REDWOOD PONDS
AFFORDABLE HOUSING PROJECT**

WHEREAS, Danco Communities is planning to construct 18 units of rental housing affordable to low- and very-low income Arcata residents at the O street property located at O Street between 12th and 13th Streets, and

WHEREAS, Danco Communities is planning to restore the three HSU homes stored on the property and site them on separate parcels on O Street and offer them for sale first to moderate and low income households through the City's Homeownership Program;

WHEREAS, the site currently has 22 legal lots on which the 18 units included in the Redwood Pond Affordable Housing Project can be accommodated;

WHEREAS, the City's primary goal is providing affordable housing, and the secondary goals for the project include the rehabilitation and siting of the HSU houses and realignment of Jolly Giant Creek if these project components are feasible given the regulatory and time constraints;

WHEREAS, Danco Communities is prepared to assist with the work to realign Jolly Giant Creek, an anadromous fish bearing creek, which would improve both habitat and flood capacity of the creek;

WHEREAS, The project has received an HCD infill infrastructure grant but requires additional funding to complete off-site improvements; and

WHEREAS, Danco Communities is applying for Tax Credits to assist with the development and requires the City's loan commitment to be competitive for the Tax Credit award;

WHEREAS, The existing streets surrounding the site are not paved or are in substandard condition, and require rehabilitation; and

WHEREAS, The project will add affordable housing to the City's housing stock,

WHEREAS, The reprogrammed CDBG funding will be used for offsite infrastructure and not for direct construction of any housing units; and

WHEREAS, The project will be required to meet prevailing wage and all other federal overlay requirements associated with the CDBG funding; and

WHEREAS, The City has an approved CDBG Reuse Plan and under this Plan the City will be utilizing the waiver method, and

WHEREAS, the City has reviewed the citizen participation plan for compliance with federal statutes and determined that this plan was followed for the approval of these CDBG Program Income funds,

NOW THEREFORE BE IT RESOLVED by the City Council of the City of Arcata as follows:

1. A loan according to the terms outlined in Exhibit 1 to this Resolution is approved contingent on Housing and Community Development approval of a Program Income Waiver Request for infrastructure in support of the Redwood Pond Affordable Housing Project;
2. The City Attorney is authorized to draft and the City Manager is authorized to execute any and all loan documents, including a regulatory agreement restricting rents to income eligible tenants, to implement the loan;

DATED:

ATTEST:

APPROVED:

City Clerk, City of Arcata

Mayor, City of Arcata

Clerk's Certificate

I hereby certify that the foregoing is a true and correct copy of Resolution No. 134-61, passed and adopted at a regular meeting of the City Council of the City of Arcata, Humboldt County, California held on the 4th day of June, 2014 by the following vote:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

City Clerk, City of Arcata

Exhibit 1

City of Arcata Loan Terms Sheet

Infrastructure in Support of Affordable Housing CDBG PI Waiver Project May 28, 2014

PROJECT NAME: Redwood Ponds Affordable Housing

PROJECT LOCATION: O Street, between 12th and 13th Streets, APN: 021-234-008

PURPOSE: The City maintains a Community Development Block Grant (CDBG) Program Income (PI) Homeownership Assistance Revolving Loan Account (RLA), which currently has a balance sufficient to support both the proposed loan and the administrative costs associated with the project. The project includes an 18 unit affordable housing new construction project, of which 17 will be restricted to low and very-low income tenants and one managers unit. The project also includes the rehabilitation of the three HSU houses that have been stored on site for years and the potential restoration/realignment of the stretch of Jolly Giant Creek that runs adjacent to the project. While the restoration of the HSU houses and the realignment project are expected outcomes of the overall project, the main project, the Redwood Ponds Affordable Housing project, may go forward without the other two components; the latter being dependent on factors beyond the control of the developer.

The developer is also applying for tax credit financing and has secured HCD Infill Infrastructure Grant (IIG) funding. To be competitive for tax credit financing, the project should have at least 45% local funds (City and Agency) committed to the project. With the approximately \$2.3 million of local funds, the project will have approximately 51% local financing.

PROJECT: Development of 17 affordable rental housing units and one managers unit. If feasible, rehabilitation of three HSU houses and realignment/restoration of Jolly Giant Creek.

FUNDING SOURCE: Construction and permanent financing from CDBG PI (\$613,000), The tax credit financing and HCD IIG financing will not be funded by the City or Agency.

BORROWER: Danco Communities or Arcata O Street, LP (to be formed)
5251 Ericson Ct
Arcata CA 95521

AMOUNT: \$613,000

TERM: 55 years

RATE: 3%

REPAYMENT: 100% of the first \$21,000 of cash flow after fees shall be used to pay down

the City loan. 75% of the cash flow after fees above the first \$21,000 shall be used to pay down the City loan, 25% shall be retained by the owner. The structure of this debt shall comport with the TCAC policy and regulations and may be structured as residual receipts or another “soft” loan repayment.

KEY CONDITIONS:

- 1) An executed Promissory Note, Deed of Trust, Loan Agreement, and Regulatory Agreement establishing very low income (less than or equal to 50% Area Median Income) affordability restrictions for 17 units for 55 years
- 2) Development of 17 income restricted affordable housing units
- 3) If developed, the HSU rehabilitated homes shall be offered for sale through the Homeownership Program for a period of 60 days after receiving the Occupancy Permit. The sale price shall be not more than the amount the HOME program maximum purchase price limit for Humboldt County or 95% median sales price for Arcata if approved by the HOME program.
- 4) 12th and 13th Streets must be dedicated to the City of Arcata and constructed to the specifications of the City’s Public Works Director or his designee.