STAFF REPORT – CITY COUNCIL MEETING

June 19, 2019

TO: Honorable Mayor and City Council Members

FROM: David Loya, Director of Community Development

PREPARER: David Loya, Director of Community Development

DATE: June 12, 2019

TITLE: **Introduction to Consider Committing up to $1.8 Million in Loan Funds to the Isackson's Affordable Housing Project.**

RECOMMENDATION:

Staff recommends the Council receive an introduction to the Isackson's housing project, consider the local funding sources for a loan commitment to the project, receive public input, and take the matter up at a separately noticed public hearing on June 27, 2019, for final action.

INTRODUCTION:

The Isackson's project proposes to add 44 housing units in a mixed-use, in-fill, alternative transportation multi-story building that will add 43 affordable units and one manager's unit to the City's housing stock. The project also includes approximately $2.3MM in off-site alternative transportation improvements city-wide. This is a significant public-private partnership between Danco Communities and the City of Arcata to provide both affordable housing and substantial improvements and additions to the City's alternative transportation infrastructure.

This item is before the Council for introduction to the project's financing structure and to consider committing local funds in the form of a loan to the project. Staff will schedule a hearing for commitment of funds for June 27, 2019, for final action.

BACKGROUND:

The project site is a largely vacant parcel in the downtown Central Commercial district that is close to City services, bus lines, shopping, and other services necessary for an alternative transportation residential development. The Council authorized application for an Affordable Housing Sustainable Communities Grant (Grant) via Resolution No. 189-37 on January 4, 2019, at which time the Council had its first introduction to the project. Staff indicated that further funding would be necessary in the January staff report. This item continues the discussion and provides details on the full project financing.

DISCUSSION:

The Project

The project proposes to relocate the current on-site residents, demolish the existing, non-historic residences and outbuildings on the northern portion of the property, subdivide the property in to two separate parcels, and develop one resulting parcel (Attachment A). The existing commercial uses on proposed Lot 1 will remain while Lot 2 will be developed with a four-story building (~45 feet) that will contain forty-three (43) income restricted residential units and a manager's unit. New utilities, sidewalks, driveway access, landscaping, playground, parking, and private and public open space areas will be developed on site.

The project includes a mix of one-, two-, and three-bedroom units to accommodate families of various sizes. The residential units comprise 36,273 s.f., while the community center and site services areas on the ground floor add an additional 1,112 s.f. and 2,122 s.f., respectively. The project meets all setback, height, and other site standards. The project will have to be conditioned to ensure all 15 required parking stalls are independently accessible.

Alternative Transportation

The project will also have several off-site improvements (Attachment B). The project will add several bike and pedestrian improvements including sidewalk repair and replacement, bike lane gap infill, bike/ped infill, pedestrian activated lighted signals for crossing Samoa Blvd., and high-visibility crossings, among other improvements. In addition, the project will fund several other alternative transportation amenities, including the addition of a transit priority signal at Samoa Blvd and H Street, funding the purchase of an electric bus, funding bus passes for each of the added residences, adding a car share station available to residents and public near the project, and improving key bus stops. These off-site amenities will be funded by the Grant (see financing discussion below).

The project will have additional amenities that support alternative transportation beyond the infrastructure it will add. First, the project will provide a minimum of one, secured, indoor bicycle parking space for each unit. Second, if feasible, the project will have a car-share program in the public right-of-way. Third, the project will have on- or near-site bike share. The infrastructure investment is important to support alternative transportation, but the addition of amenities such as these create alternative transportation by design. These amenities create privately held, incentives that support feasible alternative transportation.

Green Building

The facility has several sustainable design elements. The building will be designed as a net zero energy facility. The project will have solar PV sized to accommodate the entire energetic load of the project. The building will be fully electric, having no natural gas connection will provide 100% renewable energy. The project involves several alternative transportation amenities, which are also green building amenities, including the provision of an electric bus for the City's AMRTS, several electric vehicle charging stations, and on-site stormwater management. And, the building will exceed Title 24 by at least 15%. This is a short list of the project's sustainable building design.

Affordable Housing

The project will provide affordable housing for 43 very low-income households. The project proposes to restrict occupancy to households earning 50% area median income or less. This would mean that a family of three earning $27,000 annually could live in the Downtown, for example. The rent limits would be set by HUD annually. Currently, that three person family would pay $672 in rent and utilities for a two bedroom apartment. The City would enter a regulatory agreement for its contribution to the financing restricting rents to HOME Investment Partnership (HOME) rents set annually by Housing and Community Development Department (HCD). This follows the affordable housing strategy the City has used for decades to partner for affordable housing.

Financing

The project will be financed through a number of local and state sources (Table 1). The primary source of project funds come from a Low-Income Tax Credit allocation. The application for these funds is due July 1, 2019, and are the last in commitment. The Tax Credit application requires the applicant demonstrate all other sources of funds are committed to be considered a complete application.

The City Council authorized an AHSC Grant application in January 2019. As of this staff report, the AHSC Grant has been recommended for award by the staff. The official award will be announced on June 21. The technical assistance team that led the preparation of the AHSC Grant application feels confident the state will award these funds to the project.

The AHSC Grant provides approximately $4.4MM to the project. Of these, $2.15MM are committed in the Grant to infrastructure in support of affordable housing. These are on- and near-site improvements necessary to serve the project, including some of the demolition and site preparation work, as well as utilities. The Grant will also add approximately $2.31MM in Sustainable Transportation Infrastructure for the off-site improvements to the City's alternative transportation networks (Attachment B). These off-site improvements are not shown in the Sources Table (Table 1).

TABLE 1. PROJECT FUNDING SOURCES

PACIFIC WESTERN BANK	$	800,000
TAX CREDIT EQUITY	$	17,485,468
LOCAL FUNDS	$	1,800,000
SOLAR TAX CREDIT EQUITY	$	198,000
AHSC - HRI	$	2,150,000
DEVELOPER NOTE	$	1,000,000
TOTAL SOURCES	$	23,433,468

The commitment of loan funds is the primary consideration before the Council on this item. To be competitive for the Tax Credit funds, the project must have local support. The City's partnership on the AHSC grant was a component to this local support. The ranking structure also requires local commitment of funds. The sources table indicates $1.8MM in "Local Funds".

Based on the Tax Credit scoring criteria, the City's commitment will need to be in the range of $1.5MM to 1.8MM to be competitive. Staff recommends committing HOME Program Income for the bulk of the loan. However, due to the complexity of managing Program Income with open grants, staff recommends flexible commitment limits (Table 2). Staff will incorporate these flexible limits in a resolution for loan commitment for the June 27 hearing.

The loan commitment would be similar to the partnerships with Danco Communities on the Arcata Courtyards, Plaza Point, and Creamery Row projects, to name a few. The City would enter a loan agreement, secured by deed on the property, and a regulatory agreement to ensure the project remains in affordable housing, and would be repaid through a residual receipts loan structure. In brief, the residual receipts repayment structure is a soft loan that only requires a loan payment after several other financial obligations, including operations reserves, capital replacement reserves, and payment of hard debt, are satisfied.

While many residual receipts loans rarely have substantial repayment, the Isackson's project will cash flow for payments. Due to the financing and ownership structure, the project will have sufficient cash flow to make regular residual receipts payments on the City's loan. Many affordable housing projects require ongoing subsidy and never repay. This project will have a net positive contribution to the City's affordable housing funds through regular repayment. This will also allow the City to commit the repaid funds to another project or program in the future.

TABLE 2. CURRENT LOCAL FUNDING SOURCES

SOURCE	CURRENT CASH BAL		PROPOSED FUNDING LIMIT	
HOME PROGRAM INCOME	$	1,140,000	$	1,300,000
CDBG PROGRAM INCOME	$	739,550	$	750,000
HOUSING FUND	$	350,000	$	100,000
BASIC FUND	$	1,211,000	$	750,000
TOTALS	$	3,440,550	$	2,900,000

<u>Timeline</u>

The Tax Credit application is driving the timeline. To use the Grant soon to be awarded by the state for the off-site infrastructure, the project will need to be fully funded and developable within the Grant timelines. The final funding commitment is the Tax Credits. That application is due July 1, 2019.

POLICY IMPLICATIONS:

The policy implications are included in the draft Planning Commission Findings (Attachment C, Exhibit 1). The project hits several policy areas codified in the City's General Plan and Land Use Code.

COMMITTEE/COMMISSION REVIEW:

The City Council is not the review authority for the planning permits on this project. All of the permit actions are delegated to the Planning Commission. The Planning Commission considered the project at its June 11 meeting and continued the hearing to its June 25 meeting. The Commission is expected to make a decision on the entitlements at the June 25 meeting.

The staff report from the June 11 meeting has more detail on the planning considerations associated with the project (Attachment D – the full staff report with attachments is online at the City's watch live meetings link www.cityofarcata.org). While this information is not the purview of this item, staff would be happy to address any questions or concerns about the planning aspects of the project.

Parking limitations in the district are a concern for the adjacent residential and commercial neighbors. Parking limitations in the Central Commercial zone are also related to the alternative transportation elements of the project and the zoning district. The project meets the parking requirement for the district. This is discussed in greater detail in the Planning Commission staff report (Attachment D).

The other neighbor concern was related to the project's shadow. This is addressed in greater detail in the Planning Commission staff report, but the shadow study shows some mid winter shading of the McBain Associates building, including the solar hotwater panels in the winter months. The shading appears limited to a portion of the solar panels, but during the mid-winter, a significant portion of the buildings passive solar heat gain would be shaded by the project. This solar shading is an outcome of infill development. The Planning Commission asked Danco Communities to see if a redesign could ameliorate the solar shading element of the project.

ENVIRONMENTAL REVIEW (CEQA):

CEQA - Several special studies were performed to demonstrate compliance with the California Environmental Quality Act (CEQA) Class 32 Infill exemption (CEQA Guidelines Section 15332). Specifically, pursuant to the Guidelines Section 15332, the project:

a) Is consistent with the applicable general plan designation and all applicable general plan policies as well as the applicable zoning district as evidenced in the findings;

b) Occurs within city limits on a project site of no more than five acres substantially surrounded by urban uses, which standard is apparent;

c) Has no value as habitat for endangered, rare, or threatened species as a completely paved property;

d) If approved, would not result in any significant effects relating to traffic evidenced by the traffic study, noise, which would be no greater than baseline for allowable uses, air quality since the use will not produce air pollutants, or water quality as the project will comport with all stormwater requirements; and

e) The site can be adequately served by all required utilities and public services, which are at the street and readily available.

The environmental review was supported in part with the following technical studies: Drainage Report; Engineering Geological R-1 Soils Report; Agricultural Resource Analysis; a Phase I, and a Cultural Resource Investigation (confidential). These technical reports are on file with the City of Arcata Community Development Department. As of the date of this Staff Report, no CEQA issues have been raised by community members, or resource department and agencies.

The Subdivision qualifies for a Class 15, Minor Subdivision Exemption (Guidelines Section 15315). The subdivision is of a property in an urbanized area zoned for residential use with fewer than four resulting parcels. As described by the Findings for Approval, the project is consistent with the applicable General Plan and zoning policies, and no variances are required to approve the project. All utilities and public services are readily available to the site, and the property was not subdivided within the last two years and is not on slopes greater than 20%.

The off-site transportation portion of the project is subject to a Class 1 and Class 4, Existing Facilities and Minor Alterations to Land, respectively, Exemptions (Guidelines Section 15301 and 15304). All of the improvements are on existing infrastructure and do not impact biological or cultural resources. While portions of the trail improvements are currently rail corridor, the alignment is existing disturbed and improved along the entire length of the project. All of the sidewalk and street improvements are in existing developed right of way.

NEPA - The project is also subject to the National Environmental Policy Act (NEPA) due to the funding sources for the project. The Project Environmental Assessment is available on the City's major developments web page. While NEPA and CEQA have different foci, the studies included in the NEPA Environmental Review Record were considered in the determination that the project also qualified for a CEQA Infill Exemption.

The project was not considered exempt under NEPA due to the type of project it is, not due to any environmental impacts of the project. New affordable housing construction is required to complete an EA if funding from Housing and Community Development (HCD) is included in the project financing regardless of the environmental impact. The EA found no significant impact.

The Council does not take action on the Environmental Assessment. The Director of Community Development is the City's Environmental Coordinator for the purposes of NEPA. The EA was certified by the Environmental Coordinator on May 24, 2019. The notice of finding of no significant impact and notice of intent to request release of funds was published on May 24, 2019. The City Council's commitment will be contingent on receiving the authority to use grant funds from the HCD.

BUDGET/FISCAL IMPACT:

As discussed above, the City's financing will need to remain flexible, but the City will ultimately enter a loan for up to $1.8MM, which will be repaid quarterly on residual receipts. The various grant and local funds sources have administration and activity delivery funds, some of which will be used to administer the project, grant, and loan funds.

ATTACHMENTS:

A. Arcata_Isacksons_Entitlement_Complete_060419 (PDF)
B.1 Transportation_Improvements (PDF)
B.2 memo re transit improvements - signed (PDF)
B.3 Narrative (PDF)
C. Action, Findings, Conditions, Plans Parking COA added (DOCX)
D. SR 189-026 PC 06-11-19 (PDF)
E. Arcata_Isacksons_ShadowStudy_060419 (PDF)