



STAFF REPORT – CITY COUNCIL MEETING

June 27, 2019

TO: Honorable Mayor and City Council Members

FROM: David Loya, Director of Community Development

PREPARER: David Loya, Director of Community Development

DATE: June 21, 2019

TITLE: **Adopt Resolution No. 189-63 Committing Up To \$1.8 Million in Loan Funds to the Isackson's Affordable Housing Project.**

RECOMMENDATION:

Staff recommends the Council adopt Resolution No. 189-63 committing up to \$1.8MM in loan funds to the Isackson's affordable housing project.

INTRODUCTION:

The Isackson's project proposes to add 44 housing units in a mixed-use, infill, alternative transportation multi-story building that will add 43 affordable housing units to the City's affordable housing stock. The project also includes approximately \$2.3MM in off-site alternative transportation improvements citywide. 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.

The Council reviewed the project and its financing at the June 19, 2019, regular meeting. This item is before the Council as a duly noticed hearing to conditionally commit funds from various sources to the project.

BACKGROUND:

The project was considered by the public at a scoping meeting on January 29, 2019, where the public provided input. The City Council authorized an Affordable Housing Sustainable Communities grant application for the project on January 4, 2019. The Planning Commission considered approval of the planning permits to authorize the project on June 11, 2019, and continued its discussion to June 25 to consider approval. And the Council's introduction to the project financing was held June 19, 2019. This hearing has been noticed to conditionally commit local housing funding to the project.

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 into 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, with the exception of parking, which is discussed below.

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.

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.

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

Terms – Staff proposes the loan terms be 3% simple interest with repayment based on residual receipts for a period of 55 years. The loan will be secured by the property and the affordable housing commitment will be codified in a regulatory agreement for the term of the loan. Staff recommends the Council authorize the City Attorney to draft and the City Manager to execute the loan documents.

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

POLICY IMPLICATIONS:

Policy was addressed in the June 11, 2019, City Council introduction on this item.

COMMITTEE/COMMISSION REVIEW:

The Planning Commission will issue the entitlements for the project.

ENVIRONMENTAL REVIEW (CEQA):

CEQA – The commitment of loan funds is not a project pursuant to the California Environmental Quality Act. However, the CEQA analysis was provided in the June 11, 2019, staff report.

NEPA - The project funding is 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.

The commitment of CDBG and HOME funds will be contingent on the City receiving an Authority to Use Grant Funds from the state.

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. Reso 189-63 (PDF)