

Capitola City Council

Agenda Report



Meeting: August 22, 2024

From: Community Development Department

Subject: Affordable Housing Development Loan Amendment

Recommended Action: Adopt a resolution authorizing the City Manager to execute an Amended Loan Agreement with MP Rail Trail Associates, LP to increase an existing loan of \$250,000 by \$1,307,808 for a total loan of \$1,557,808 to fund development of 52 residential units affordable to low income households at 1098 38th Avenue, Capitola, CA and allocating \$357,807.60 of PLHA Funds and \$950,000 of Housing Successor Agency Funds thereto.

Background: On March 10, 2023, MP Rail Trail Associates, LP, an entity controlled by MidPen Housing, a local non-profit affordable housing developer ("MidPen"), acquired 1098 38th Avenue, Capitola, CA ("Property"). Upon acquiring the Property, MidPen requested \$250,000 in funding for predevelopment planning costs from the City.

On June 22, 2023, the City Council received a presentation from MidPen regarding a future 100% affordable multifamily rental housing development on the Property and directed staff to prepare a loan agreement to assist with predevelopment activities.

In 2023, MidPen hired Architects FORA to design the future multifamily housing development. MidPen originally requested \$250,000 for predevelopment planning, including \$200,000 for architectural design, \$32,000 for civil and survey costs, and \$19,800 for geotechnical reports and testing, with the expectation that the City would consider providing additional construction funding in the future.

On November 9, 2023, the City Council authorized a loan agreement in the amount of \$250,000 to assist with predevelopment planning of 1098 38th Avenue utilizing Housing Successor Agency Funds.

On April 4, 2024, the City of Capitola Planning Commission unanimously approved MidPen's density bonus application to entitle a 52-unit development affordable to households earning between 30% and 60% of area median income for Santa Cruz County on the Property. The development includes four separate buildings surrounded by two landscaped outdoor community spaces with a community table, play area for children, community garden, dog run, 70 surface parking spaces, and a bike barn (the "Project").

Discussion: Following the entitlement process, MidPen submitted a HOME grant application to the State of California, Department of Housing and Community Development (HCD) for \$12,000,000. The awards will be announced in the fall of 2024.

On June 13, 2024, MidPen submitted a funding request to the City. The request explained that if their HOME application is successful, a funding gap of approximately \$1.35 million will remain. The funding request is for a loan to fully finance the Project and position MidPen to apply for tax credits in 2025.

The City has two funding sources that can be utilized to fund the gap in the Project, Permanent Local Housing Allocation Fund (PLHA) and Housing Successor Agency Funds.

On June 23, 2023, the City was awarded a PLHA grant. The PLHA five-year plan for grant funding allocation includes funding for the development cost of affordable housing rental projects, very low-income homeless assistance Housing for Health Partnership year-round emergency shelter operations in Santa Cruz County, and project administration. The first year of PLHA funding (\$105,092) was allocated for homeless assistance (95%) and administration (5%). The second and third year of PLHA funding was allocated for development costs associated with the Project (\$357,808) and five percent project administration (\$18,832).

The City also has funding available in the Housing Successor Agency fund from a recent loan payoff by Castle Mobile Home Park. These funds are restricted and may be used only for the following purposes:

1. Monitoring and Administration of Redevelopment Agency or Housing Successor affordable units.
2. Homeless prevention and rapid rehousing.
3. Development of housing for households earning 80% or less of the area median income (AMI).

The Project at 1098 38th Avenue qualifies for use of the PLHA and Housing Successor Agency funding. The original loan for \$250,000 utilized Housing Successor Agency funding. The remaining Project funding gap of \$1.35 million can be closed by City Council authorization to allocate the combined amount of \$357,808 of PLHA funds and \$950,000 of Housing Successor Agency funds toward the Project.

Fiscal Impact: The loan amendment of \$1,307,808 will be fully funded through the PLHA grant (\$357,808) and Housing Successor Agency (\$950,000). The Housing Successor Agency will have a remaining balance of approximately \$975,000 which will continue to fund multiple housing programs including the Homeless Action Partnership, Security Deposit Assistance, CAB Emergency Housing Assistance, and Administration. A new low-income housing rehabilitation program was included in the FY24/25 budget as programmed in the 6th Cycle Housing Element.

Attachments:

1. Resolution
2. MidPen Housing Loan Request
3. PLHA 5-year Plan
4. 1098 38th Avenue Development Site Plan and Rendering

Report Prepared By: Katie Herlihy, Community Development Director

Reviewed By: Julia Gautho, City Clerk; Samantha Zutler, City Attorney

Approved By: Jamie Goldstein, City Manager