

Capitola City Council

Agenda Report



Meeting: March 27, 2025

From: Community Development Department

Subject: Housing Rehabilitation Assistance Program

Recommended Action: Adopt a resolution approving the City of Capitola Housing Rehabilitation Assistance Program for Owner-Occupied Deed-Restricted-Affordable Units with Resale Price Restrictions (“Program”), adopting associated Program Guidelines, approving an agreement with Habitat for Humanity Monterey Bay for the administration and operation of the Program in the amount of \$22,500, authorizing the City Manager to execute same on behalf of the City, and directing staff to oversee the Program implementation.

Background: In 2014, the City was awarded a \$500,000 grant for Housing Rehabilitation and Homeownership Assistance from the CDBG Program in late 2014. The grant-funded Rehabilitation and Homeownership Assistance loans, up to \$75,000, were available to all income-eligible households (earning less than 80% of median income). The City also issued housing rehabilitation grants for up to \$7,500 per household for energy and water efficiency upgrades. The program was available to senior citizens, disabled persons, and income eligible households. Within this program the City funded eight housing rehabilitation loans, five housing rehabilitation grants, and one downpayment for a first-time homebuyer.

Discussion: In 2024, the City adopted Capitola 6th Cycle Housing Element which commits the City to various programs and policies to facilitate housing production, affordability, and preservation. The Capitola Housing Element Programs 2.2, 2.7, 3.4, 5.1 and 5.2 include commitments to utilize the City’s Housing Trust Fund (HTF) to assist households during the 6th housing cycle (2023-2031) through a Housing Rehabilitation Program for affordable housing. The City’s Fiscal Year 2024-2025 budget includes \$225,000 in funding in the HTF. The primary sources of the HTF include the Inclusionary Housing In-Lieu Fee for ownership housing (for projects with seven or more units) and the Housing Impact Fee (for projects with fewer than seven units). HTF funds may be used for affordable housing programs and administration, including housing rehabilitation.

In accordance with the City’s Housing Element, the proposed Housing Rehabilitation Assistance Program is designed to provide grants of up to \$12,650 for owner-occupied deed-restricted-affordable units with resale price restrictions in the City of Capitola. The proposed project funding would allow up to 16 total grants at the maximum funding level.

The Program focuses on ensuring the longevity of the City’s affordable housing stock, as well as assisting with necessary home repairs that address health, safety, and code compliance issues in deed-restricted affordable housing. Units eligible to participate in the proposed program include:

- 1616 & 1615 Heritage Lane
- Capitola Beach Villas – 1066 41st Avenue Unit Nos. B101, B102, C104, D105, G202, G203, G204, G205
- 4150 Pearson Court
- 1506 Tera Court
- 2155 Wharf Road, Unit Nos. 35 & 36
- Turner Lane Mobile Home Park – 920 Capitola Avenue Unit Nos. 6, 7, 12, 38, 43, 65, & 76
- 3740, 3750, 3760 Brommer Street
- 1335, 1345, 1355 38th Avenue

The City sought proposals from qualified nonprofit organizations to administer the Program, ensuring effective outreach, eligibility determination, and project management and received one proposal from Habitat for Humanity Monterey Bay (HfHMB). HfHMB has over 36 years of experience in providing affordable housing solutions, including home repairs, in Santa Cruz and Monterey Counties. The proposal includes the following key elements:

- Use of volunteer labor, donated materials, and cost-saving strategies when available.
- Compliance with all applicable building codes and accessibility standards.
- Oversight of permitted work by a licensed contractor employed by HfHMB.
- Execution of agreements with property owners before commencing work.
- Ensuring that all subcontractors are licensed, insured, and bonded where necessary.
- Adherence to safety procedures outlined in HfHMB's Construction Safety and Standards Policy.
- Commitment to working exclusively on owner-occupied, deed-restricted properties within Capitola.
- Prohibition of volunteers under the age of 18 at job sites.

The FY24/25 budget includes an allocation of \$225,000 in the Housing Trust Fund. HfHMB proposes a 10% administration fee for program administration, which amounts to \$22,500 for the proposed agreement. The remaining \$202,500 will be utilized for the rehabilitation work on qualified households (up to \$12,650 per household x 16 households = \$202,500). Grant applications would be reviewed by City staff for consistency with the Program goals and requirements prior to grants being awarded by the Community Development Director as authorized by the HTF administrative guidelines.

Selecting HfHMB as the program operator will ensure the effective and efficient implementation of the Housing Rehabilitation Assistance Program while maximizing the use of available funds. HfHMB has unique partnerships with contractors and building supply companies that allows funds to go much further than the typical costs of construction. For instance, some building suppliers will donate energy efficient appliances or highly subsidized discounts for goods or services to HfHMB due to the organization's reputation as a well-regarded, effective non-profit, recognized for its commitment to building quality homes and promoting affordable housing.

The proposed Housing Rehabilitation Assistance Program supports the following Housing Element Programs and Policies:

Program 2.2 Affordable Housing Monitoring: Preserving the City's existing affordable housing inventory is an important community goal. While no deed-restricted affordable housing units are at risk of converting to market rate during the Housing Element planning period, the City will proactively monitor these units to encourage continued affordability beyond existing covenants and work proactively with owners of affordable units.

Timeline and Objectives: Maintain contact with property owners of affordable housing regarding any change in status/intent or need for assistance, such as rehabilitation assistance.

Program 2.7 Housing Trust Fund: The City utilizes available funds to provide loans and grants through the City's Housing Rehabilitation Loan and Grant Program, to assist with affordable housing project feasibility studies, and to office assistance in permanent financing of acquisition/rehabilitation projects and new construction affordable housing projects. The primary source of funding is the Housing Trust Fund (HTF). The primary sources of the HTF are the Inclusionary Housing In- Lieu fee for ownership housing (for projects with seven or more units) and the Housing Impact fee (for projects with fewer than seven units).

To further encourage the development of affordable housing, the City will maintain the HTF and will utilize the available funds to provide loans and grants through the City's Housing Rehabilitation Loan and Grant Program.

Timeline and Objectives: By December 2025, initiate a City Housing Rehabilitation Loan and Grant Program, to assist with affordable housing project feasibility studies and permanent financing of acquisition/rehabilitation projects and new construction affordable housing projects. Assist 10 households with affordable loans and grants over 8 years.

Program 3.4 Housing for Persons With Disabilities: Annually seek state and federal monies, as funding becomes available, in support of housing construction and rehabilitation targeted for persons with disabilities, including developmental disabilities.

Program 5.1 Housing Rehabilitation Program: The program is designed to address basic health and safety issues in owner-occupied housing by providing small loans to cover the costs of repairs. Eligibility is restricted to low-income households in Capitola. However, given the limited funding, administrative burden and requirements of a loan program, this program has not been effective or attracted sufficient interest from the community. Therefore, the City will restructure the program to provide grant assistance to seniors and the disabled, as well as lower income households, to make necessary repairs.

Timeline and Objectives: By December 2025, reinstate a Housing Rehabilitation Program to provide grant assistance to lower income and special needs households. Staff plans to seek federal and state grants to support a rehabilitation grant program on an annual basis. The Program will assist 16 seniors, disabled, and lower income households during the planning period through the Housing Rehabilitation program.

Policy 5.4: Promote the repair, improvement, and rehabilitation of housing and encourage replacement of substandard housing to enhance quality of life in neighborhoods.

Concurrently, staff is working with the Dakota Apartments on a grant application to rehabilitate the 24-unit affordable accessible rental apartments. The Dakota Apartments are restricted to Lower Income (under 60% median income) or Very Low Income (under 50% median income) persons with mobility impairments, traumatic brain injury and/or severe physical disabilities, consistent with definitions under the HUD 811 program. The Dakota Apartments rehabilitation will be funded with HOME program income funds. The owner of the Dakota Apartments is currently working on the required existing conditions report for the grant application.

Fiscal Impact: The Housing Rehabilitation Program is funded through the City's Affordable Housing Trust Fund, which includes \$225,000 for FY 2024-25 for a potential first time home buyer assistance program. Staff proposes shifting those funds to this Rehabilitation Program. As the funds are already budgeted, no budget amendment is required.

Environmental Review: Pursuant to the California Environmental Quality Act (CEQA) and the State CEQA Guidelines, the approval of the Housing Rehabilitation Assistance Program and associated Guidelines does not constitute a "project," within the meaning of CEQA Guidelines Sections 15060(c), because there is no potential that the activity will result in a direct or reasonably foreseeable indirect physical change in the environment.

Even if this activity were determined to be a "project" for CEQA analysis, this activity falls within the "common sense" CEQA exemption set forth in CEQA Guidelines Section 15061(b)(3), excluding projects where "it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment." No unusual circumstances exist and none of the exceptions under CEQA Guidelines Section 15300.2 apply. Individual rehabilitation projects will undergo CEQA analysis as necessary.

For the same reasons, approval of the agreement with HfHMB to administer the Program is also exempt from CEQA.

Attachments:

1. Resolution No. _____
2. Housing Rehabilitation Assistance Program Guidelines
3. Draft Agreement between City of Capitola and Habitat for Humanity Monterey Bay
4. Habitat for Humanity Monterey Bay Proposal

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