

Capitola City Council

Agenda Report



Meeting: May 23, 2024

From: Community Development Department

Subject: Dakota Apartments Grant Application

Recommended Action: Adopt a resolution authorizing the City Manager to apply for up to \$900,000 in HOME Program Income funds for the rehabilitation of the Dakota Apartments.

Background: In 1997, the Capitola Redevelopment Agency transferred ownership of an undeveloped corner lot at Clares Street and Capitola Road to Accessible Space Inc. (ASI), working with National Handicapped Housing Institute (NHHI), for the development of an affordable/accessible rental housing project. The property was transferred for the appraised value of \$1,120,000. The project received grant funding from the Department of Housing and Urban Development (HUD) in the amount of \$1,840,600. This grant established a monthly subsidy, which accounts for most rental income. Additional funding to develop the project included an Affordable Housing Program (AHP) grant (\$125,000), NHHI funds (\$29,000), and local grant funds in the form of RDA Housing Set-Aside (approximately \$1.2 million for site acquisition & pre-development costs), CDBG Re-Use funds (\$396,244), and HOME Re-Use funds (\$377,000). In total, the City contributed \$1,979,742 (RDA, HOME and CDBG Program Re-Use funds).

The Dakota Apartments was established through a Disposition and Development Agreement (DDA) which set out terms for ASI to purchase the land, develop accessible/affordable housing, and receive financial assistance from RDA. All units must be rented to lower-income (under 60% median income) or very low-income (under 50% median income) persons with mobility impairments, traumatic brain injuries, and/or severe physical disabilities, consistent with definitions under the HUD 811 Program. Income certification is required upon initial occupancy of all new renters. Annual income re-certification is required by HUD and performed by ASI. ASI is responsible for all maintenance, repair, and management functions.

The Dakota Apartments have been in existence for almost 30 years and now need rehabilitation to address structural issues. ASI is currently addressing issues on the exterior of the building, including new gutters, a new stormwater retention system, and replacing the deck membrane on the exterior second-story shared hallways. The structure is also in need of a new roof, a new heating system, and updated lobby flooring for which they are seeking funding.

Discussion: The HOME Investment Partnerships Program (HOME) is authorized by Title 11 of the Cranston-Gonzalez National Affordable Housing Act (NAHA). The purpose of HOME is to expand the supply of affordable housing for low- and very low-income families. NAHA requires that any repayment of HOME funds drawn from a jurisdiction's HOME Investment Trust Fund, and any payments of interest or other return of investment of such funds, shall be deposited in the jurisdiction's HOME Investment Trust Fund account. Funds in the account may only be used for HOME eligible housing.

All HOME activities must benefit low-income renters, homebuyers, or homeowners. Eligible activities include:

1. Housing rehabilitation, new construction, and acquisition and rehabilitation, for multifamily projects;
2. New construction and down payment assistance for single-family projects;
3. First-time homebuyer down payment assistance;
4. Owner-occupied rehabilitation and tenant-based rental assistance programs; and
5. Predevelopment loans to community housing development organizations.

The City of Capitola currently has a balance of \$883,000 in the HOME Program Income Fund from loan payoffs of first-time home buyer and rehabilitation loans. ASI is seeking \$754,520 in funding to replace the roof, replace the heating system, and update the flooring in the main lobby. The project qualifies for the use of HOME program income funds due to the Dakota Apartments serving low and very low-income households. Although the funding is available, the City is required to submit an application to HCD to reutilize the funds.

Item	Cost
New Roof	\$155,000
New Heating System	\$482,000
New Flooring in Lobby	\$67,120
Soft Costs (Appraisal \$14,500, Phase I ESA \$35,900)	\$50,400
Application	\$10,000
Administration – Adams Ashby Group	Up to \$65,000
Total	\$829,520

Fiscal Impact: The City of Capitola currently has a positive balance of \$883,000 in the HOME Program Income Fund from loan payoffs of previous HOME loans. The City Council previously authorized \$10,000 in funds to complete the HOME application. If approved, \$754,520 of the funds would be utilized for the rehabilitation of the Dakota Apartments, \$50,400 for project soft costs, and up to \$65,000 for project administration by Adams Ashby Group. The loan will be structured at 3% simple interest for 55 years.

Attachments:

1. Resolution

Report Prepared By: Katie Herlihy, Community Development Director

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

Approved By: Jamie Goldstein, City Manager