

RESOLUTION NO. \_\_\_\_\_

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CAPITOLA RESCINDING RESOLUTION NO. 4393 AND REAUTHORIZING THE CITY MANAGER TO EXECUTE AN AMENDED AND RESTATED \$1,600,000 LOAN AGREEMENT WITH MP RAIL TRAIL ASSOCIATES, LP, A CALIFORNIA LIMITED PARTNERSHIP, TO FUND THE DEVELOPMENT OF 52 RESIDENTIAL UNITS AFFORDABLE TO LOW INCOME HOUSEHOLDS AT 1098 38<sup>TH</sup> AVENUE, CAPITOLA, CALIFORNIA AND ALLOCATING \$449,376 OF PERMANENT LOCAL HOUSING ALLOCATION FUNDS AND \$900,624 OF HOUSING SUCCESSOR FUNDS THERETO, AND AMENDING THE FY 2024-25 BUDGET**

**WHEREAS**, MP Rail Trail Associates, LP, a California limited partnership ("**Borrower**"), an entity controlled by MidPen Housing Corporation, a California nonprofit public benefit corporation ("**MidPen**"), is the owner of approximately 1.97 acres of real property located at 1098 38th Avenue, Capitola, California ("**Property**"); and

**WHEREAS**, on November 9, 2023, the City of Capitola ("**City**") entered into a Predevelopment Loan Agreement ("**Loan Agreement**") with Borrower to provide a loan of \$250,000.00 (the "**Loan**") from its Low and Moderate Income Housing Asset Fund, established pursuant to Health and Safety Code § 34176 (d) ("**Housing Successor Funds**"), to fund the costs and expenses that Borrower would incur to assess the feasibility of the development of affordable multi-family residential housing on the Property, design the project, and apply for governmental land use approvals needed for the development and construction of the project; and

**WHEREAS**, on April 4, 2024, the City of Capitola Planning Commission unanimously approved Borrower's application to develop the Property with fifty-two (52) multi-family residential units, comprised of four (4) studio units, twenty-one (21) one-bedroom units, fourteen (14) two-bedroom units, and thirteen (13) three-bedroom units, for a total of fifty-one (51) residential units affordable to households earning under 80% of area median income for Santa Cruz County, and one (1) unit permitted for a Property Manager, located within four (4) separate buildings which are 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**"); and

**WHEREAS**, in March 2024, Borrower secured a conditional commitment of 25 project-based vouchers for the Project from the Housing Authority of Santa Cruz County for an initial term of 20 years; and

**WHEREAS**, in April 2024, Borrower submitted an application for HOME funds through the State of California, Department of Housing and Community Development ("**HCD**"), with awards to be announced in the fall of 2024, and are intending to apply for funding from CDBG-DR Disaster Relief Funds in September 2024 in the event the HOME fund application with HCD is unsuccessful; and

**WHEREAS**, if either the HOME or CDBG funding application is successful, the Project will still have a funding gap of approximately \$1,350,000; and

**WHEREAS**, the timely appropriation of local housing funds to close the Project funding gap is necessary to enhance the chances that the Project will secure the requested award of

HOME or CDBG funds that will then allow the Project to apply for tax credits at the earliest opportunity; and

**WHEREAS**, on August 24, 2024, the City Council unanimously adopted Resolution 4393 to authorize the City Manager to execute an amended loan agreement with MidPen Housing to increase the original loan of \$250,000 to \$1,600,000 utilizing both Permanent Local Housing Allocation Fund (“**PLHA**”) and Housing Successor Agency Funds, and subsequently, on January 22, 2025, HCD notified the City that an additional \$20,504 in PLHA funds are to be distributed to the City which may be allocated to the Project; now, therefore, be it

**NOW, THEREFORE, IT IS HEREBY RESOLVED THAT THE CITY COUNCIL OF THE CITY OF CAPITOLA HEREBY DETERMINES AS FOLLOWS:**

1. Resolution No. 4393, adopted on August 24, 2024, is hereby rescinded.
2. An additional sum of \$1,350,000, consisting of \$449,376 of PLHA Funds and \$900,624 of Housing Successor Funds, is hereby committed and allocated by the City to the Project in the form of an Amended and Restated Loan Agreement (“**Amended Loan Agreement**”) to thereby increase the total amount of the Loan to \$1,600,000 (the “**Project Loan**”), in the form of a subordinate construction loan, convertible to a permanent loan, subject to loan terms set forth in Exhibit A of this Resolution, to fund the construction of the Project. The City Manager is hereby authorized to negotiate, execute, enter into and implement all documents associated with or required for the Amended Loan Agreement, including but not limited to an amended promissory note to evidence the Project Loan to be secured by an amended deed of trust to be recorded against the Property, in a form approved by the City Attorney, and to amend the term of the Amended Loan Agreement, as deemed necessary by the City Manager, to require repayment of the Project Loan if Project Funding is not secured by MidPen within five years from the date of the Amended Loan Agreement.
3. The FY 2024-25 Budget is amended to reflect the additional funds consisting of \$449,376 of PLHA Funds and \$900,624 of Housing Successor Funds.
4. As a condition of the Project Loan, Borrower shall execute, enter into and record against the Property an Affordable Housing Agreement and Declaration of Restrictive Covenants (the “**Regulatory Covenant**”) with City that requires all residential housing units developed on the Property, excluding one (1) Property manager’s unit, to be available to and rented at rents affordable to households earning less than 80% of area median income for Santa Cruz County for a period of time no less than fifty-five (55) years from the date of occupancy of the Project. The City Manager is hereby authorized to negotiate, execute, enter into and implement all documents associated with or required for the Project Loan and Regulatory Covenant in a form approved by the City Attorney.

**I HEREBY CERTIFY** that the foregoing Resolution was passed and adopted by the City Council of the City of Capitola on January 30, 2025, by the following vote:

**AYES:**  
**NOES:**  
**ABSENT:**  
**ABSTAIN:**

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Joe Clarke, Vice Mayor

ATTEST:

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Julia Gautho, City Clerk

**Exhibit A**

<b>Proposed City of Capitola Project Loan Terms</b>	
<b>Item</b>	<b>Term</b>
Borrower	MP Rail Trail Associates, L.P., a California limited partnership
Project Sponsor	MidPen Housing, a California nonprofit public benefit corporation
Project Loan Amount	\$1,350,000; to be combined with \$250,000 Predevelopment Loan; Total Project Loan amount of \$1,600,000.
Project Loan Term	55 years from Perm Conversion
Security	Project Loan Amount to be evidence by Promissory Note to be secured by a subordinate Deed of Trust recorded against the Property at the time Project construction financing is closed
Eligible Expenses	PLHA Funds: Predevelopment; Housing Successor Agency Funds: Construction and Permanent Financing
Interest Rate	3% simple interest
Amortization	N/A residual Receipts payments
Repayment	Residual Receipts