

Capitola City Council

Agenda Report



Meeting: January 30, 2025

From: Community Development Department

Subject: Affordable Housing Development Loan Amendment

Recommended Action: Adopt a resolution 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 to fund development of 52 residential units affordable to low-income households at 1098 38th Avenue and allocating \$449,376 of PLHA Funds and \$900,624 of Housing Successor Agency Funds thereto, and amending the FY 2024-25 Budget.

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 in Capitola ("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 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. The loan agreement utilized 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 – 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"). The approval included flexibility in the range of affordability as long as all units remain affordable to low-income households, earning less than 80% of area medium income.

On August 24, 2024, the City Council unanimously adopted a resolution to execute an amended loan agreement with MidPen Housing to increase the original loan of \$250,000 to \$1,600,000. The amended loan agreement utilized both Permanent Local Housing Allocation Fund (PLHA) and Housing Successor Agency Funds.

On January 22, 2025, the State of California, Department of Housing and Community Development (HCD) identified an additional \$20,504 in PLHA funds that are to be distributed to the City, which may be allocated to the Project.

Analysis: 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). On January 22, 2025, HCD indicated an increase in PLHA allocation of \$20,504. In order to proceed with HCD approval to utilize the funding, the August 24, 2024, resolution must be updated to include the additional \$20,504 of PLHA funds. The total balance of the loan remains the same at \$1,600,000, but the funding sources are amended by decreasing the Housing Successor Agency Funds by \$20,504.

MidPen also requested that the loan documents be drafted to ensure all units are affordable to low-income households earning less than 80% of AMI, which is consistent with the original approval. In 2024, MidPen had applied for a HOME loan for the project which was specifically tied to household earning between 30 – 60% AMI. Unfortunately, the HOME funds were not awarded. MidPen is requesting the modification to allow more flexibility in future funding applications. During the Planning Commission review, it was noted that the levels of affordability were subject to change. The loan document will ensure that all units are affordable to low-income households earning less than 80% AMI.

Fiscal Impact: The loan amendment of \$1,350,000 will be fully funded through \$449,376 of PLHA Funds and \$900,624 of Housing Successor Agency Funds. The Housing Successor Agency will have a remaining balance of approximately \$995,000 which will continue to fund multiple housing programs, including the Homeless Action Partnership, Security Deposit Assistance, CAB Emergency Housing Assistance, administration of such programs, and future implementation of the 6th Cycle Housing Element.

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