



STAFF REPORT – CITY COUNCIL MEETING

November 01, 2023

TO: Honorable Mayor and City Council Members

FROM: David Loya, Director of Community Development

PREPARER: David Loya, Director of Community Development

DATE: October 25, 2023

TITLE: **Adopt Resolution No. 234-16 to Authorize a \$150,000 Loan to Arcata House Partnership for Predevelopment Studies for Acquisition and Development of Affordable Housing at 3605 Heindon Road.**

RECOMMENDATION:

Staff recommends the Council consider adopting Resolution No. 234-16 to authorize a \$150,000 loan to Arcata House Partnership for predevelopment studies for acquisition and development of affordable housing at 3605 Heindon Road.

INTRODUCTION:

The City adopted a Permanent Local Housing Allocation (Housing Allocation) 5-Year Plan (“Plan”) on October 19, 2022. Within the adopted Plan, the City recognized the need for a funding source for predevelopment financing. Most funding sources require a complete plan and site control as eligibility threshold criteria. Predevelopment funding can signal early partnership between the City and affordable housing developers, facilitate vetting a project, and reduce the risk for our housing partners exploring projects. This action would authorize a loan that includes direct financial assistance for predevelopment studies, planning, design, and engineering, as well as permits to annex and plan the development of an affordable housing project at 3605 Heindon Road.

DISCUSSION:

The City of Arcata explored several projects with affordable housing partners to identify projects that aligned with the Plan goals, would help meet the City’s affordable housing needs, and were viable from a project readiness and capacity perspective. The Heindon Road. project meets the criteria. Arcata House Partnership has a willing seller, the site at 1.6 acres could be developed at 40 units under proposed zoning standards without a density bonus and can be shovel ready within approximately a year.

While the Loan Terms are fully described in the terms sheet (Attachment A), there are several key terms. Key terms include repayment to begin accruing interest when the project receives a certificate of occupancy. This will allow the borrower to not be financially burdened while developing other funding sources to acquire and build the project. The loan payments will be structured as residual

receipts, which means that payments are due only after covering all other operational expenses. This ensures the financial stability of the project by not overburdening it with debt service. Arcata House will need to have site control through an option to purchase. Another key term will be reserving units for income restricted rents to households earning less than 80% Area Median Income.

The property is outside of the City limits and will require annexation. The property is not in the Urban Services Boundary nor is it in the City's Sphere of Influence. It is currently developed at a density that would meet the Residential Very Low standard and is surrounded by small-scale agricultural lands and a few low-density residential uses. The property is immediately adjacent to the City boundary and would not trigger annexation of additional lands.

The property itself is not used for agricultural purposes, but the property is in a map unit that includes prime agricultural soils (Storie Index 100). The General Plan Policy GM-3c, which applies to undeveloped properties, requires lands with Storie Index over 60 to be rezoned Agricultural Exclusive. Policy GM-3d, which would apply to this property since it is developed with urban uses, does not have this requirement. Despite this, the Council should clearly understand that this property encroaches into lands that would receive the protection of GM-3c.

The annexation timing requires action on the part of the City and the Local Agency Formation Commission. That process may take up to a year. During this time, Arcata House and the City will seek funds to complete the project. Likely sources include the Infill Infrastructure Grant, Community Development Block Grant, HOME Partnership Program, as well as others. The income mix will be dependent in part on the grant source for project financing, but the project would be restricted to families and seniors earning 80% Area Median Income or less.

POLICY IMPLICATIONS:

This project will help the City meet its housing objectives for lower income households. The project will also likely have a senior housing component.

COMMITTEE/COMMISSION REVIEW:

None required.

ENVIRONMENTAL REVIEW (CEQA):

The loan will not have direct impacts on the environment. Because the nature of the project is unknown at this time, it is speculative to suggest that there may be indirect impacts on the environment. Therefore, this action qualifies for the common sense exemption because it can be seen with certainty that the action will not have an impact on the environment. Any actions taken as a result of the loan will be evaluated for compliance with CEQA. This action is exempt pursuant to CEQA Guidelines Sec. 15061(b)(3).

BUDGET/FISCAL IMPACT:

The loan will use up to \$150,000 of the City's PLHA funds. The loan will be repaid over time and the funds will be used as Program Income to fund other affordable housing projects.

ATTACHMENTS:

A. Reso. No. 234-16 PLHA AHP (PDF)