



# STAFF REPORT – CITY COUNCIL MEETING

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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. 234-17 to Authorize a \$150,000 Loan to Danco Communities for Predevelopment Studies for Development of Affordable Housing at 1622 Old Arcata Road.**

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## **RECOMMENDATION:**

Staff recommends the Council consider adopting Resolution No. 234-17 to authorize a \$150,000 loan to Danco Communities for predevelopment studies for development of affordable housing at 1622 Old Arcata 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 plan the development of an affordable housing mixed-use project at 1622 Old Arcata Road, also known as Roger’s Garage.

## **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 Roger’s Garage project meets the criteria. Danco Communities owns the Roger’s Garage parcel and will work with Danco Communities to develop a mixed-use project with affordable housing. Danco Communities will operate and manage the project long-term.

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. Another key term will be reserving units for income restricted rents to households earning less than 80% Area Median Income.

The property has previously been identified as a brownfield site. While there is a closure letter on the project, the City will work with the North Coast Regional Water Quality Control Board (Board) and/or the Humboldt County Department of Public Health (Public Health) to ensure the site conditions are suitable for residential development. This may include characterization and removal of contamination on the site.

Danco Communities or Danco Communities 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:**

The project will help the City meet its housing goals.

**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. 234-17 Danco PLHA (PDF)