



# STAFF REPORT – CITY COUNCIL MEETING

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**TO:** Honorable Mayor and City Council Members

**FROM:** David Loya, Director of Community Development

**PREPARER:** David Loya, Director of Community Development

**DATE:** June 18, 2025

**TITLE:** Public Hearing to Receive Public Comment on the Roger's Garage Affordable Housing Project.

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## **RECOMMENDATION:**

Staff recommends that the Council:

- 1) Receive a staff report, open the public hearing, and take public comment; and
- 2) Close the public hearing.

## **INTRODUCTION:**

The City has been working with Danco Communities over the past year to assist the development of the Roger's Garage site for affordable housing. The Council previously approved two separate funding rounds for predevelopment and development for the project. Affordable housing projects require several finance sources. After noticing the public hearing, staff learned that the Roger's Garage site is listed on the Cortese List. projects that are on the Cortese List CEQA Guidelines, Sec. 15300.2(e), are ineligible to use a Categorical Exemption. Staff will reassess the level of environmental review for the project and will notice a future hearing when that process is complete. No action is needed at this time.

## **BACKGROUND:**

The City holds approximately \$1,500,000.00 in CDBG PI due to a relatively large business loan repayment in FY 24/25. The City also has two open CDBG grants for Business Assistance and the Valley West Neighborhood Center study. Grant funds cannot be drawn when the City holds PI. In addition to losing access to grant funds, the City may not be eligible for the upcoming 2025 CDBG grant cycle. Allocating local PI to these activities resolves the grant expenditure concerns and facilitates the City's affordable housing and economic development policy goals.

The City held a CDBG scoping hearing on February 19, 2025, which identified the Roger's Garage Project, the Mad River Community Hospital campus Behavioral Health Center, and the Economic Development activities as likely for CDBG PI funding. From that scoping list, the Roger's Garage and Economic Development activities are being considered for PI application because these activities are both ready to fund and have the highest eligibility. Staff is continuing to assess the Behavioral Health Center for CDBG eligibility. If eligible, that project will be noticed separately for a PI application hearing. If it is not eligible, staff recommends allocating the Center's allocation to the Roger's Garage project to fully disburse the PI balance by adopting Resolution No. 245-46.

The Business Assistance and Microenterprise program application, which was noticed along with the Roger's Garage application, will be heard separately. The City has an open grant it may allocate PI funds to. The City's BA and ME programs have been in high demand, and the additional funding will support 2-5 additional businesses. The BA/ME program, however, cannot expend much more than the proposed \$200K in the remaining time on the '22 grant. For this reason, committing the bulk of the funding to a project that can use the full amount sets the City's CDBG program up for best success.

## **DISCUSSION:**

### The Project

The Roger's Garage Project is a proposed 45-unit multi-family affordable housing development targeting households with incomes at 30, 40, 50, and 60 percent of the area median income (AMI). The project site is located at 1622 Old Arcata Road. Currently, the project has secured \$5M funding through the Competitive Permanent Local Housing Allocation (CPLHA) program and will be applying for the California Tax Credit Allocation Committee (CTCAC) funds and, perhaps, other grants. City Council previously awarded \$180,000 in Permanent Local Housing Allocation Program (PLHA) funds for predevelopment work. This project will address the need for housing for lower-income households.

The project is currently seeking land use permits with the City of Arcata. Danco Communities is working to complete the application, but preliminary plans have been submitted (May 21, 2025, City Council agenda item, Attachment B). The design is consistent with the City's Land Use Code and compliant with the General Plan 2045. The project requires a Design Review permit, which will be considered by the Planning Commission at a separately noticed hearing. The City's authority must be consistent with the Housing Accountability Act in reviewing the project based on objective design standards.

There are several neighbors that have expressed concern about the project (Attachment A). While this hearing is not the appropriate venue for reviewing the land use entitlements, the Council's action should consider the broader implications. The concerns that have been raised include contamination on the site, which used to be an auto repair shop. Uses also included car crushing.

The City is working closely with the North Coast Regional Water Quality Control Board, which is the responsible agency for clearing contaminated sites for development. The project has an approved clean-up plan, which the Water Board staff have preliminarily indicated is adequate to clear the site for development.

Other concerns expressed include the building height, concerns over traffic on Old Arcata Road as a result of the project, and concerns about compatibility of uses. The site has been zoned for the proposed use since at least 2008. Except for maximum allowed height, the project conforms with all design standards in the code. The buildings meet the height standard, but the photovoltaic array, which is roof mounted, extends five feet above the height standard. Such projections are allowed three feet. So the project requires a site design standard exception to accommodate an additional two feet beyond the maximum for the solar panels.

Since the project is a State Density Bonus law project, it also qualifies for exceptions and concessions from the standards and fees. State law allows density bonus projects to eliminate local requirements that impact the cost of the project. Density bonus law provides a very low bar for developers to show that there is a cost impact to the project when requesting concessions or exceptions. Such exceptions to the standards include the height exception. To date, Danco has not requested any concessions or additional exceptions from the standard.

## Financing

To be competitive for the TCAC financing, the project requires local funding as a soft loan. All affordable housing projects require subsidy layering to bring them to market. The City's prior commitments count towards the local financing. The PI will be a part of the funding package. The City and Danco Communities will likely seek additional state funding for the project as well. This commitment is also critical to supporting the Competitive PLHA \$5M award for the project that the City was awarded recently.

CDBG-eligible activities include acquisition, predevelopment, and construction-related costs for affordable housing projects. Staff recommends allocating a total of \$758,000 to \$1M, depending on the Health Center eligibility, in CDBG program income to support the eligible activity for the acquisition of property for a multi-family affordable housing development project, activity delivery, and administrative costs.

The City commitment of CDBG PI would be contingent on Danco Communities securing the remaining funding needed to complete the project. The project total cost is estimated at \$31M. The City has committed \$5M in CPLHA funding. The CDBG PI would be an additional ~\$1M. If the remaining funding to complete the project is not secured, the CDBG PI funding would not be disbursed.

If the funds are disbursed, they would be loaned to Danco Communities, or to the LLC developed to own and operate the project, for acquisition of the property. The City is not purchasing the property and will not be an owner of the property or the project. The City is acting similar to a bank, lending funds to the LLC to acquire the property to develop the project.

The loan terms would include a low interest, residual receipts note and a regulatory agreement restricting tenancy to lower-income households. Residual receipts are paid to the City from cashflow after all hard debt and operations funding requirements are met. Generally, the City receives 75% of residual receipts and the developer receives 25%. This loan structure and the process of securing grant funds to loan to affordable housing developers is the same as affordable housing developments the City has been involved in (e.g., Sorrel Place, Plaza Point, Arcata Gardens, Bayview Apartments).

Revenue from payments on the loan funds over time will be deposited in the City's CDBG PI Fund (255). This revenue can then be loaned in the future to other eligible CDBG projects or programs.

## Timeline and Public Participation

Approving an application for use of CDBG PI is a very early step in the process for considering project approval. In addition, the financing is one of two City processes; there will be a Planning Commission Design Review, as well. The financing component will likely take a year or more to secure all of the financing for the project. There may be additional grant opportunities the City is involved in. Ultimately, the project will have to secure competitive tax credit financing through the Tax Credit Allocation Committee.

The land use entitlement is a Design Review permit. The application is incomplete for the Design Review permit, so an estimate on when the project will be before the Commission is premature. This process will happen later in 2025. The Commission would be reviewing the project for conformance with the City's objective design standards. The Housing Accountability Act (the "Act") prevents the City from denying a housing project that is in conformance with its standards. The Act also prevents the City from modifying, reducing the density, or otherwise conditioning the project in ways that are not consistent with the objective design standards.

The public are encouraged to be involved in each of these decisions. The financing components are noticed through the newspapers. The Planning Commission hearing will be noticed both by a legal notice in the newspaper and a mailer to all residents and property owners within 500 feet of the project. In addition, City staff have been corresponding with individuals that have expressed an interest in the project to ensure they are aware of any City meetings or actions. Lastly, the City added the project to its Major Development Projects page (<https://www.cityofarcata.org/705/Major-Development-Projects>).

#### Program Income General Administration

The CDBG program updated its software interface in FY 21/22. As a result of this update, they could no longer receive information about CDBG PI Expenditures unless they were associated with a grant. Despite the CDBG program's software challenges, the City continued to incur General Admin (GA) expenses. The City has tracked those expenses and revenues in its General Ledger but has been unable to report these expenditures. This PI application includes the PI GA revenues since FY 21/22 so the City can report the expenditures. The total GA revenue is approximately \$331,773. There is currently a PI GA balance of approximately \$135,414 the City can use for future expenditures. The balance of expenditures will be reported in previous Fiscal Years.

#### **POLICY IMPLICATIONS:**

This project is consistent with the City's affordable housing, infill, alternative transportation, and mixed-use policies in the Arcata General Plan 2045.

#### **COMMITTEE/COMMISSION REVIEW:**

The Planning Commission will consider land use entitlements at a separately noticed hearing.

#### **ENVIRONMENTAL REVIEW (CEQA):**

CEQA-The project is listed on the Department of Toxic Substances Control EnviroStore website. This is a list developed pursuant to Government Code Sec. 65962.5 et seq (Cortese List). Sites on lists developed under this Government Code do not qualify for Categorical Exemptions. The property was voluntarily added to the Cortese list when a previous project proposal to develop a preschool on the site was being considered.

Despite the fact that the project would otherwise qualify for the Class 30, small hazardous waste cleanup, and Class 32, infill projects, because it is on this list, the exemptions cannot be used. Staff will evaluate the environmental review process and report back to Council in the coming months.

NEPA- Projects funded by CDBG are subject to the National Environmental Policy Act (NEPA). The acquisition is categorically excluded subject to 24 CFR § 58.35(a) as it meets requirements for multifamily residential buildings 3(iii)(B). However, the project may require an Environmental Assessment ("EA") because it proposes new construction of more than five units.

The Council does not take action on the Environmental Assessment. The Director of Community Development is the City's Environmental Coordinator for the purposes of NEPA. The EA will be certified by the Environmental Coordinator. A notice of no significant impact and notice of intent to release funds will be published thereafter. The City Council's commitment will be contingent on receiving the authority to use grant funds from HCD.

#### **BUDGET/FISCAL IMPACT:**

The action would authorize \$1,331,773 in expenditures of local PI currently held in the 255 Fund. This action would only be effective after the CDBG program issues an Authority to Use Grant Funds. This action cannot be taken until CEQA is complete.

**RECOMMENDED COUNCIL ACTION:**

- 1) Receive a staff report, open the public hearing, and take public comment; and
- 2) Close the public hearing.

**ATTACHMENTS:**

- A. Public Comment received between May 21 and June 8, 2025