



**AGENDA SUMMARY
EUREKA CITY COUNCIL**

TITLE: 7th and Myrtle Affordable Housing Development Developer Selection

DEPARTMENT: Development Services

PREPARED BY: Melinda Petersen, Housing Projects Manager

PRESENTED FOR: Action Information only Discussion

RECOMMENDATION: Approve Danco Communities as the preferred developer for the proposed 7th and Myrtle Affordable Housing Project and authorize the City Manager to enter negotiations for an Exclusive Right to Negotiate Agreement with Danco Communities.

FISCAL IMPACT

No Fiscal Impact Included in Budget Additional Appropriation

COUNCIL GOALS/STRATEGIC VISION: Per the March 2017, City Council Strategic Plan, City Council is seeking “more affordable housing” and “new affordable housing units.” This project meets both of those goals. The project also satisfies many of the goals and policies outlined in the City’s 2014-2019 Housing Element.

DISCUSSION: The City of Eureka Housing Successor Agency owns two parcels (001-261-20 and -022) with an estimated total area of approximately 2.0 acres at 7th Street and Myrtle Avenue (see Attachment A for a map of the site). The property is known as the “7th and Myrtle site”. An additional parcel (APN: 002-114-002) at 1808 6th Street is also owned by the Housing Successor and is located east of 6th Street & Myrtle Avenue. The City acquired these properties using moneys from the Low and Moderate Income Housing fund.

As per Section 33334.16 of the State Health and Safety Code¹, the City must do one of the following by next year:

- Begin the process of developing the site with affordable housing

¹ “For each interest in real property acquired using moneys from the Low and Moderate Income Housing fund (former Redevelopment Agency funding), the City shall, within five years from the date it first acquires the property interest (or date of transfer to the City of Eureka Housing Successor), develop housing affordable to persons and families of low and moderate income, and initiate activities consistent with the development of the property for that purpose.” The City is obligated to either extend the five (5) year period for one (1) additional period not to exceed five (5) years, or sell the property and deposit the money from the sale, less reimbursement to the City for the cost of the sale, into the City’s Housing Successor fund.

- Begin the process of selling the property to a developer that will create affordable housing
- Begin the process of selling the property for purposes other than affordable housing and use the proceeds of the sale for affordable housing at a different location.

On 8/25/17 the City of Eureka released a Request for Proposal for the development of an affordable housing project at the sites. A Pre-Submittal Meeting was held on 9/20/17, and an addendum to answer questions was released on 9/29/17. Upon the proposal deadline of 10/20/17, two (2) complete proposals were received. One proposal was received from Danco Communities and one proposal was received from Housing Humboldt. A Review and Scoring Panel was convened on 11/20/17 to evaluate the two proposals and to hear presentations from the two entities. The panel consisted of the following individuals: Eureka City Manager, Eureka Public Works Director, Eureka Development Services Director, Arcata Community Development Director, Humboldt Housing Authority Director, Humboldt County DHHS Senior Program Manager, Eureka Deputy Finance Director, and Eureka Housing Project Manager. After careful consideration, all eight members of the review panel unanimously selected the proposal submitted by Danco Communities. The results of the review panel scoring were presented at a special meeting of the Housing Advisory Board on November 29th, 2017. The Housing Advisory Board concurred with the panel's recommendation of selecting Danco Communities.

PROJECT DESCRIPTION:

Danco Communities: Danco Communities proposes to create a limited partnership to be the ownership entity of the project, likely including Johnson & Johnson Investment, LLC as the Administrative Partner. A non-profit housing entity will be created for the Managing General Partner to receive property tax-exemption. When the final limited partnership agreement is formed, an investor-limited-partner will be inducted into the partnership who will put in all of the equity and be the 99% owner of the Project. The limited partner is synonymous with the tax credit syndicator. The proposed project is an approximately \$7.8 million new three-story elevator building proposed for senior affordable housing units. The project will be designed to accommodate twenty-three seniors at 50% of Humboldt County Low income, eight seniors at 40%, and four seniors at 30%, with one market rate manager's unit. The ground floor includes a two-bedroom manager's apartment, office, community spaces such as a sitting room, fitness room, bike parking, laundry and utilities, plus nine other dwelling units (two of which are two-bedroom). The upper second and third floor levels each include 13 dwelling units (10 one-bedroom, 2 two-bedroom units and 1 studio per floor), along with a common laundry and sitting room.

The project includes a total of 36 dwelling units with 1 two-bedroom unit that is reserved for the on-site manager. The remaining 35 units are reserved for income-qualified seniors, including 27 one-bedroom units, six (6) two-bedroom units, and two (2) studio units. The site is developed to include 19 parking spaces, trash and recycling collection, walkways, and landscaped open-space. LEED and Green Communities Certifications will

be sought in construction for solar and energy improvements. The City is requested to finance the acquisition of properties for this project at \$377,500, if both sites are acquired, at an interest rate of 3% for 55 years, with repayment from residual receipts. Danco is confident that the \$750,000 gap in financing, which is expected to be filled by SB3 grant funding, HOME Program (HCD), Infill Program funds (HCD), local funds like Project Based Vouchers or Local Agency donations, or possibly City Housing funds or rental subsidies will assist in filling the gap. Expected completion is March 2019.

Favorable Findings:

1. The use of all three parcels will assist the City Housing Successor in not having to apply for an additional extension of time to develop or sell the 1808 6th Street vacant site for parking.
2. Danco in 2017 completed “The Lodge at Eureka” containing 34 units of senior and 15 homeless affordable housing units, and is currently proposing the “Eureka Veteran’s Village” to consist of 24 veterans and 25 homeless veterans units. Currently another 27 unit affordable housing unit in Crescent City and another proposed 80 unit facility in Samoa. This demonstrates their experience in delivering similar projects.
3. Danco has indicated a \$750,000 gap in financing but has provided a range of viable funding source options to meet that gap: Home (HCD), Infill Grant (HCD), or Project Based Vouchers, Federal Housing Bond (SB3) in development, or City Housing Funds.
4. The project site is in an established residential neighborhood. The proposed project (senior housing) should generate minimal neighborhood resistance relative to other types of projects that could be proposed at the site.
5. Danco and the County DHHS has indicated that there are extensive waiting lists on all senior housing in the region, demonstrating that there is substantial need for this project.
6. The project is proposed to include a “Phase II” driveway extension through the southern parcel of the 7th & Myrtle site, which could also be used in the future for additional parking.
7. The Reviewing Panel scored this project 707 points out of a grand total of 800.

Humboldt Housing:

Humboldt Housing and Rural Communities Housing Development Corporation (Rural Communities), both nonprofits, proposed to co-sponsor a \$9.8 million development under a Joint Development Agreement. The co-sponsors proposed to form a Limited Partnership for the sole purpose of developing, owning, and managing the low-income housing development proposal. The proposed development consists of a 46 unit affordable housing complex, with very small units (some as small as 288 sf). The unit mix consists of 40 single room occupancy units, six 1-bedroom units, and a 3-bedroom on-site manager’s unit. Of the 46 units, 23 are proposed to be set aside for special needs populations eligible under the No Place Like Home Grant (Possibly available in the Fall of 2018), including persons with serious mental illness who are chronically homeless,

homeless, or at-risk of being chronically homeless. The remaining 23 units will offer affordable housing to eligible low income households – those earning 60% or less of Humboldt County Area Median Income.

For this proposed project, supportive services programs are a key component of the proposal. A partnership with social services providers, including Humboldt County Department of Health and Human Services and Arcata House Partnership, would be necessary to serve the target population and provide direct support and/or linkage to the necessary clinical or health care service provided on and off site. Private office space was to be provided for property management staff as well as social work professionals to offer on-site engagement and support aimed at keeping residents stably housed.

According to the developer, although the “No Place Like Home” Program grant is yet un-accessible, the financial forecast suggests that the project would work best with the non-competitive allocation available to Humboldt County, but would also achieve a favorable tie-breaker score to win an award. Careful management of the project expenses coupled with the assistance of the Capitalized Operating Subsidy and rental assistance programs, was to sustain financial viability of the development. Section 8 vouchers and other rental assistance programs such as the Rapid Re-housing program funds administered by Arcata House Partnership are anticipated and would help low-income households to afford fair market rent amounts by paying the balance of the rent amounts that exceeds 30% of the household’s monthly income. The City was requested to finance the acquisition of only

the 7th & Myrtle property at \$320,000, at an interest rate of 3% for 55 years, with repayment from residual receipts. Expected completion is June 2020. The City would have to request an extension of the sale of the second parcel if not sold as it will have been held beyond five (5) years since the transfer of the property to the Housing Successor by the elimination of the Redevelopment Agencies.

Findings of Concern:

1. Financing concerns: Primary funding source “No Place Like Home” grant funding is currently unavailable until Fall of 2018, possibly later. The program is new and there is no track record to indicate how the program will operate. There was a concern for the cancellation of the project if funding does not materialize.
2. Higher concern for neighborhood acceptance of tenants.
3. Concern for Renewal of annual operating funding sources.
4. Development of only the 7th & Myrtle Avenue site will require the City to request an extension of the development of the 1808 6th Street site.
5. The Reviewing Panel scored this project 651 points out of a grand total of 800.

CONCESSIONS: Both proposals would need to request concessions/incentives or waivers under the State Affordable Housing Density Bonus law (Cal Gov Code 65915). Staff has determined that with the application of available concessions/incentives and/or waivers, either project could comply with the City’s development standards. However, the Danco

project is in closer conformance with the City's development standards and requires a less intensive set of concessions.

REVIEWED AND APPROVED BY:

City Attorney
City Clerk/Information Services
Development Services
Finance
Fire
Parks and Recreation
 Personnel
Police
Public Works

ATTACHMENTS: A. SITE LOCATION MAP