

REPORT TO THE CITY COUNCIL

City of Salinas, California

DATE: February 7, 2017

FROM: Megan Hunter, Community Development Director, Community Development (CD) Department.

BY: Anastacia Wyatt, Planning Manager, Community Development (CD) Department.

SUBJECT: **Mid-Peninsula The Farm, Inc. 21 Soledad Street Housing Community Disposition, Development and Loan Agreement (DDLA)**

RECOMMENDATION:

It is recommended that the City Council:

1. Approve a Resolution authorizing execution of the Disposition, Development and Loan Agreement (DDLA);
2. Approve a Resolution regarding the City Funding Reservation Letter; and
3. Approve a Resolution authorizing a future Fee Deferral Loan Agreement.

DISCUSSION:

This Report and the recommendations are intended to provide the City Council and members of the public with an overview and status update regarding the Mid-Peninsula The Farm, Inc. (MidPen) proposed 21 Soledad Street Housing Community (Project) and seek formal approval from the City Council regarding the DDLA, City Funding Reservation Letter, and future Fee Deferral Loan Agreement.

Public Hearing and Citizen Participation

The City Council meeting allows for input from the public regarding the proposed MidPen Project. Noticing for the City Council meeting was published in *The Salinas Californian* on January 21, 2017 and January 28, 2017 and in the *El Sol* weekly on January 21, 2017 and January 28, 2017.

21 Soledad Street Housing Community

Background

The proposed Project site consists of eight (8) contiguous parcels totaling approximately 35,750 square-feet (.82-acres) which are mainly vacant with the exception of an existing estimated 3,100 square-foot one-story structure located at 19 Soledad Street, which will be demolished as part of the proposed Project. The proposed Project is located within the historic Salinas Chinatown neighborhood. The proposed Project will include a single podium building containing parking and commercial spaces on the ground floor and three residential stories above containing 81 single room occupancy (SRO) units, 4

one-bedroom units, and 5 two-bedroom units for a total of 90 units. The housing units will be arranged around a central courtyard on single-loaded corridors. Community amenities will include two elevators, a community room with kitchen, laundry facilities, a 24-hour security help desk/lobby, on-site managers' office, resident services offices, a computer room and other common spaces to be determined. Outdoor amenities include a common courtyard and garden beds. The subject property is currently zoned MX-FG2 (Mixed-Use-North Main Street/Soledad Street Focused Growth Overlay). The units will be developed pursuant to the terms and conditions of the City of Salinas Conditional Use Permit 2016-004. The proposed Project is being processed as a mixed-use building including SRO units. It is the intent of MidPen to build and deliver the entire project in one phase and begin leasing all units at the same time. MidPen is not requesting a density bonus, incentives, concessions or waivers as part of the State Density Bonus Law for the proposed Project. The current property owner is the City of Salinas.

The proposed Project includes a total of 90 multifamily rental units with 88 units affordable to extremely low and low income tenants and 2 units set-aside as market-rate for onsite property management staff. The proposed Project complies with option one of Salinas City Code Section 17-10(e)(1) of the existing Inclusionary Ordinance No. 2451, which requires twenty percent (20%) of the total units to be designated as inclusionary units; therefore, 18 units of the proposed 90 units will be designated as inclusionary units. The affordability of the inclusionary units will be for a period of thirty (30) years.

As part of MidPen's property management plan, they have identified that their property management staff will assist in the verification of tenant incomes at initial occupancy and annually thereafter for the duration of the thirty (30) year inclusionary rental regulatory agreement period. MidPen property management staff is certified in housing program eligibility and verification along with applicable federal, state, and local regulations to ensure compliance. The City will also monitor the proposed Project for compliance in accordance with federal, state, and local requirements. Monitoring will include review of annual reports required of the owner and may include on-site visits to the Project to review owner's records regarding compliance or to verify information submitted.

The inclusionary units will not be different in size, interior and exterior design compared to the rest of the non-inclusionary housing units in the proposed Project. Table 1 below provides a summary of the proposed Project unit mix breakdown.

Table 1
Project Unit Summary

Income Level of Renters	Type of Unit	Unit Size	# of Units	# of Baths	Unit Square Footage
Extremely/Low Income	Multifamily	SRO	81	1	438
Low Income	Multifamily	1-Bedroom	4	1	575
Low Income	Multifamily	2-Bedroom	3	1	840
Market Rate (unrestricted)	Multifamily	Managers' Unit (2-Bd)	2	1	840
Total No. of Units			90		

Environmental

The environmental impacts of the development have been analyzed in accordance with the California Environmental Quality Act (CEQA). On December 21, 2016, the City Planning Commission determined that the development is categorically exempt from further environmental analysis under CEQA pursuant to CEQA Guideline Section 15332 (In-Fill Development Projects). All necessary environmental regulations including NEPA requirements will be met prior to the disbursement of any federal funds in the project.

Proposed Project Funding

According to MidPen, in order to successfully fund the proposed Project, contributions will be required from multiple funding sources including, but not limited to; California Tax Credit Allocation Committee (CTCAC) 9% Low-Income Housing Tax Credit (LIHTC) Program, Central California Alliance for Health (CCAH), Project-based Section 8 Housing Vouchers, City HOME Investment Partnerships (HOME) Program, City Community Development Block Grant (CDBG) Program, City of Salinas land donation, City fee deferral and conventional permanent financing. See Exhibit B – Financing Proposal of the DDLA for detailed information on the proposed financing structure for the Project.

The primary source of funding for the proposed Project will come from CTCAC's 9% LIHTC program. CTCAC administers the federal and state LIHTC programs which help promote investment in affordable rental housing projects for low-income tenants. CTCAC facilitates the investment of private capital in the development of affordable rental housing projects. CTCAC allocates federal and state tax credits to developers of affordable rental housing projects. Corporations provide equity to build the projects in return for tax credits. CTCAC verifies that developers have met all requirements of the program and ensures the continued affordability and habitability of the development will continue for the succeeding 55 years. CTCAC offers two competitive rounds of LIHTC application funding annually which are typically due in March and June. CTCAC requires that developers have site control and all necessary project financing under control, committed and/or reserved prior to each competitive application round. The goal is for MidPen to have site control and all necessary financing under control, committed or reserved along with any other necessary agreements such as the draft DDLA fully executed prior to the upcoming March 2017 LIHTC application round. In order to assist MidPen to ensure that all necessary CTCAC requirements are met prior to the upcoming March 2017 LIHTC application deadline, staff is bringing this item to the City Council for final approval of the draft DDLA and other necessary City funding reservations in order to meet the March 2017 LIHTC application deadline. City staff brought this item before the CDBG/Housing Subcommittee on January 19, 2017 for a formal recommendation to the City Council. On January 19, 2017, The CDBG/Housing Subcommittee recommended that the City Council approve the draft DDLA and City Funding Reservation Letter.

To assist with overall Project funding MidPen has also secured a \$2,500,000 grant from CCAH to help house individuals who have chronic or unmanaged medical conditions which are exacerbated by being homeless or having some other form of housing instability. MidPen also intends to apply to the Housing Authority of the County of Monterey (HACM) in early 2017 for project-based Section 8 Housing Vouchers which will provide rental subsidies to the project. Aside from the proposed funding sources

mentioned above the remaining funding is proposed to derive from conventional permanent financing, City contributions and other potential grants and loans. The City to-date has invested a total of \$626,500 in the proposed Project by providing a combination of grants and loans to MidPen. Table 2 below provides a summary of the City contributions to MidPen for the proposed Project to-date.

Table 2
City Project Funding To-Date

Funding Source	Dollar Amount	Purpose	Loan/Grant	Fiscal Year
Inclusionary Housing Trust Fund	*\$25,000	Property Studies	Grant	12/13
Successor Redevelopment Agency Funds (SERAF)	*\$201,500	Predevelopment Costs	Loan	14/15
Community Development Block Grant (CDBG)	*\$400,000	Environmental Remediation	Grant	16/17
Total	*\$626,500			

**Funds have either been disbursed or committed.*

In addition to the funding sources mentioned above, MidPen has identified an additional project-financing gap. As a result, MidPen has requested additional funding from the City. The estimated additional City funding and dollar amounts are subject to City Council and HUD approval and funding reservations are needed as part of the CTCAC LIHTC application requirements. The proposed City amounts below represent the maximum dollar amounts and may not be needed should MidPen secure other funding sources or costs be lower than originally estimated. Table 3 below provides a summary of the City's proposed additional Project funding sources and dollar amounts.

Table 3
City Proposed Additional Project Funding

Funding Source	Dollar Amount	Purpose	Loan/Grant/Donation	Fiscal Year
Community Development Block Grant (CDBG)	*\$667,000	Commercial/Retail	Loan	17/18
Community Development Block Grant (CDBG)	*\$667,000	Commercial/Retail	Loan	18/19
HOME Investment Partnership (HOME) Program	*\$550,000	Construction Costs	Loan	18/19
Land	*\$525,000	Land	Donation	-
Fee Deferral (Impact Fees)	*\$1,000,000	**Waiver of Eligible Fees	Loan	-
Total	*\$3,409,000			

**Subject to City Council and HUD approval. Commitments and reservations needed for CTCAC LIHTC application requirements.*

*** Fee Deferral will not include TAMC, MRWPCA, NPDES MFR and City Building, Fire & Engineering Review/Inspection and non-residential impact fees.*

Fee Deferral Loan Agreement

An important component of the tax credit application scoring is local public match. Previously, the Redevelopment Agency was able to provide the majority of such match. With the elimination of Redevelopment Housing Set-Aside funds, developers such as MidPen are seeking alternative sources to supply the necessary match to make their application competitive. Therefore, in order to increase the share of local public match that can be documented for the March 2017 tax credit application, MidPen is requesting that the City provide up to \$1,000,000 as a deferred payment loan to cover eligible City development and other impact fees required of the project.

The deferral of the City Fees would be evidenced by a loan agreement with a note in the principal amount of no more than \$1,000,000 to be paid over fifty-five (55) years at a simple interest rate of 3.0%. The fee deferral loan agreement is proposed to be paid from residual receipts from the Project and will be secured by a deed of trust to be recorded against the Project. If the Project is approved for any future HOME and/or CDBG funding, the deferred impact fees would be paid by such an allocation once those loan agreements are executed. The fee deferral loan agreement will not include costs such as regional sanitary sewer fees assessed by the Monterey Regional Water Pollution Control Agency (MRWPCA), regional traffic impact fees assessed by the Transportation Agency for Monterey County (TAMC), National Pollutant Discharge Elimination System (NPDES), non-residential impact fees and City Building, Fire and Engineering review/inspection fees.

The order of City repayment from its proposed funding sources mentioned above in the proposed Project will be as follows: 1.) City fee deferral, 2) City HOME, 3) City CDBG and 4) SERAF. In addition to the necessary financial commitments and reservations needed for the proposed Project in advance of the upcoming CTCAC LIHTC application round in March 2017, MidPen also needs the DDLA to be fully executed prior as a CTCAC LIHTC application condition. The DDLA is for disposition of the property by the City to MidPen. The DDLA does not commit the City Council to grant any land use approvals necessary for the development of the proposed Project.

Goals, Policies and Implementing Actions

MidPen's proposed Project will assist the City in helping meet its Regional Housing Needs Allocation (RHNA) by providing an additional 88 affordable restricted extremely low and low income rental housing units and 2 market-rate manager units for a total of 90 newly constructed units in Salinas. The proposed Project is also in concurrence with the following City housing policies, goals, studies and plans as summarized below.

General Plan Housing Element Policies and Implementing Actions:

- Policy H-1.6: Encourage diverse, mixed-income neighborhoods throughout the City through the geographic dispersal of units affordable to lower and moderate-income households, increased location choice for voucher recipients, and continue to follow state and federal fair housing requirements (including City contracts with housing and public services recipients).
- Action H-15: The City actively furthers fair housing choice in the community through fair housing services and other fair housing actions.

- Policy H-3.4: Encourage and support the provision of safe and decent housing for lower income households and those with special needs within proximity of public transportation and services.
- Policy H-3.5: Encourage and support the provision of housing and services for homeless individuals and families in addition to individuals experiencing mental illness through the use of state and federal programs and through public-private partnerships and through local collaborative efforts.

City Housing Studies and Plans:

- 2015-19 Consolidated Plan
- Analysis of Impediments to Fair Housing Choice (AI)
- United States Department of Housing and Urban Development (HUD) Affirmatively Furthering Fair Housing Rule (AFFH)
- HUD' Assessment of Fair Housing (AFH) Planning Document
- Chinatown Revitalization Plan

PROPOSED TIMING:

- CTCAC LIHTC application deadline is tentatively scheduled for March 2017.

ISSUE:

Shall the City Council:

1. Approve a Resolution authorizing execution of the Disposition, Development and Loan Agreement (DDLA);
2. Approve a Resolution regarding the City Funding Reservation Letter; and
3. Approve a Resolution authorizing a future Fee Deferral Loan Agreement.

COMMISSION, COMMITTEE, COUNCIL SUBCOMMITTEE RECOMMENDATIONS:

The staff report, presentation and Resolutions in regards to this public hearing item incorporate the CDBG/Housing Subcommittee's formal recommendation to the City Council.

FISCAL IMPACT:

Upon City Council approval and HUD approval of future City entitlement allocations, additional City funding for the proposed project would propose to derive from estimated FY 17/18 and FY 18/19 CDBG and FY 18/19 HOME allocations, City land donation and City fee deferral of eligible fees.

TIME CONSIDERATIONS:

The CTCAC LIHTC application deadline is tentatively scheduled for March 2017.

Given the need to complete the environmental analysis under NEPA, the City Council's consideration and approval of the proposed actions will occur over the course of two meetings. City Staff anticipates the NEPA analysis will be completed by February 15, 2017. At the City Council's February 7, 2017 meeting, the City Council will receive the report from City Staff and hold the public hearing on the proposed actions, thereby giving the public an opportunity to participate in the City Council's consideration of the proposed actions. The public hearing will then be closed and the matter continued to the City Council's February 21, 2017 meeting for final action by the City Council.

ALTERNATIVES/IMPLICATIONS:

The Alternative is to not approve or modify either of the following:

- DDLA
- City Funding Reservation Letter
- City Fee Deferral Loan Agreement.

Not approving either of the above would lead to the possibility that MidPen's proposed project would lose points in its tax credit application and the possibility of not receiving tax credits that would provide a majority of the funding for this project. This could lead to less affordable housing being built in the City of Salinas.

CITY COUNCIL GOALS:

The proposed Project is in concurrence with existing and future housing policies, goals, plans and studies identified in the General Plan Housing Element and other City and HUD planning and policy documents.

CONCLUSIONS:

Approve the Resolutions authorizing the City Manager to execute the DDLA, City Funding Reservation Letter and future City Fee Deferral Loan Agreement for the proposed Project.

Back Up Pages:

DDLA Resolution

DDLA

Funding Reservation Resolution

Funding Reservation Letter

Fee Deferral Resolution

Summary Report