



# 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:** May 21, 2025

**TITLE:** Consider Adopting Resolution No. 245-46 Committing Community Development Block Grant (CDBG) Program Income Loan Funds to the Roger's Garage Affordable Housing Project.

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## RECOMMENDATION:

It is recommended that the Council:

- 1) Adopt an Infill Exemption (CEQA Guidelines Sec. 15332) for the project;
- 2) Adopt Resolution No. 245-46 authorizing the application for and allocation of up to \$1,331,773.00 in Community Development Block Grant (CDBG) Program Income (PI) to support gap financing for the acquisition of property for the Roger's Garage multi-family affordable housing development project and Program Income General Administration; and
- 3) Continue the CDBG Public Hearing to June 4, 2025, to consider authorizing an application for CDBG PI for up to \$300,000.00 for the Business Assistance (BA) and Microenterprise (ME) program.

## 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. The local investment is generally a very small portion of the overall investment. This action would allocate approximately \$820K in local CDBG Program Income to the project and approximately \$180K for staff and legal costs. In addition, this action will allocate \$331,773.00 to General Administration activities for the Program Income account dating back to Fiscal Year 21/22.

## 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. From that scoping list, the Roger's Garage Project, the Mad River Community Hospital campus Behavioral Health Center, and the

Economic Development activities are being considered for PI application. 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 (Attachment A).

The Business Assistance and Microenterprise program 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. Council should continue this public hearing to June 4 to consider authorizing that activity for PI.

## **DISCUSSION:**

### The Project

The Roger's Garage Project is a proposed 53-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 funding through the Competitive Permanent Local Housing Allocation (CPLHA) program and will be applying for the California Tax Credit Allocation Committee (CTCAC) funds. City Council previously awarded \$180,000.00 in Permanent Local Housing Allocation Program (PLHA) funds for predevelopment work. This project will address the need for housing, particularly for lower- and moderate-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 (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. 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. While this hearing is not the appropriate venue for reviewing the land use entitlements, the Council's action on Resolution No. 245-46 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 Northcoast 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. The project conforms with all design standards in the code.

### 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 \$5MM 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 \$758,000.00 to \$1MM,

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.

#### 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 \$331,773.00. There is currently a PI GA balance of approximately \$135,414.00 the City can use for future expenditures. The balance of expenditures will be reported in previous Fiscal Years.

#### **POLICY IMPLICATIONS:**

This action supports the City's affordable housing goals.

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

The Planning Commission will consider land use entitlements.

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

CEQA-Based on information in the current application and the record to date, the project qualifies for an Infill Exemption pursuant to CEQA Guidelines Sec. 15332. The project conforms with the General Plan designation and zoning on a city lot less than five acres; there is no sensitive species habitat on the property; the project will not result in significant effects related to traffic based on the City's General Plan 2045 EIR VMT analysis; noise based both on AB 1307 (Wicks) and the General Plan EIR Noise analysis; air and water quality impacts based on the General Plan 2045 EIR.

NEPA- The project funding is subject to the National Environmental Policy Act (NEPA) due to the funding sources for the project. The project is categorically excluded subject to 24 CFR § 58.35(a) as it meets requirements for multifamily residential buildings 3(iii)(B). The project is not considered exempt under NEPA because of the type of project proposed, not due to any environmental impacts. Affordable housing acquisition and renovation requires an Environmental Assessment (EA) if funding from Housing and Community Development (HCD) is included in project financing, regardless of any environmental impact.

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 \$1,331,773.00 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.

#### **RECOMMENDED COUNCIL ACTION:**

Motion to 1) Adopt an Infill Exemption (CEQA Guidelines Sec. 15332) for the project; 2) Adopt Resolution No. 245-46 authorizing the application for and allocation of up to \$1,331,773.00 in

Community Development Block Grant (CDBG) Program Income (PI) to support gap financing for the acquisition of property for the Roger's Garage multi-family affordable housing development project and Program Income General Administration; and 3) Continue the CDBG Public Hearing to June 4, 2025, to consider authorizing an application for CDBG PI for up to \$300,000.00 for the Business Assistance (BA) and Microenterprise (ME) program.

**ATTACHMENTS:**

- A. Resolution No. 245-46
- B. Roger's Garage Project Plan Set
- C. Comment from J. Holder