



County of Santa Cruz Board of Supervisors

Agenda Item Submittal

From: Redevelopment Successor Agency

(831) 454-2280

Subject: Disposition of 17th & Capitola

Meeting Date: November 5, 2019

Recommended Action:

As the Board for the Santa Cruz County Redevelopment Successor Agency, approve the Affordable Housing and Property Disposition Agreement By and Between the Santa Cruz County Redevelopment Successor Agency and MP Live Oak Associates, L.P., a partnership established by MidPen Housing; authorize the County Administrative Officer to execute the agreement; and take related actions.

Executive Summary

The Office for Economic Development and the Planning Department have been working to dispose of property owned by the former Redevelopment Agency of the County of Santa Cruz (RDA). Through a disposition process that included a Request for Proposals, MidPen Housing was selected as the lead developer for a project to include a 57-unit affordable housing development and two clinics. The recommended action is the third of three actions on today's agenda, which consist of (i) consideration by the Santa Cruz County Redevelopment Successor Agency (RSA) Board of an agreement for the disposition of the property, (ii) consideration by the County of entitlements for development of the property consistent with the disposition process, and finally, (iii) consideration by the County of a commitment of affordable housing funds to the affordable housing portion to the project. In addition, with this action, the County will assume the rights and obligations of the Santa Cruz County Redevelopment Successor Agency (RSA) under the Affordable Housing and Property Disposition Agreement which provides for long-term oversight of the property as an affordable rental project.

Background

The former Redevelopment Agency of Santa Cruz County (RDA) acquired the parcels located near the southwest corner of 17th Avenue and Capitola Road in 1994 and 1997. These parcels became known as the Capitola Road Commercial Site (Site). Through a series of community discussions, a vision for the site evolved by 2010 that would allow it to provide vibrant space for community gathering, housing and economic activity.

When the State eliminated redevelopment agencies in 2011, there was a need to modify plans for the Site. Pursuant to the dissolution laws, the Santa Cruz County Redevelopment Successor Agency (RSA) prepared a Long-Range Property Management Plan (LRPMP) in September 2013 which directed the managed sale of the Site to maximize sale proceeds and long-term economic and community benefit. The LRPMP was approved by the California Department of Finance on August 20, 2014.

On April 20, 2017, a community meeting was convened to gather input to guide the vision for the Site. The community cited affordable housing as a priority and an interest in horizontal mixed-use design. The vision also called for a reference to the history of the Site, preservation of the large live oak tree and a preference for locally-owned businesses and non-profits along with other desires. A request for qualifications (RFQ) was approved by the Board on May 23, 2017 to seek qualified and experienced developers to enter into an exclusive negotiation agreement for the purchase and development of the Site for a mixed-use, neighborhood-serving commercial project.

On August 4, 2017, three responses to the RFQ were received and represented interest from MidPen Housing (MPH), City Ventures, and For the Future Housing. For the Future Housing was subsequently disqualified from the process due to a procedural violation. Upon review of the responses, MPH was selected as the preferred developer.

The MPH proposal included a mixed-use project consisting of an affordable housing project and space for two not for profit community clinics -- Dientes Community Dental Care (Dientes) and Santa Cruz Community Health Centers (SCCHC) (collectively, the Clinics).

On December 5, 2017, the RSA entered into an Exclusive Negotiation Agreement (ENA) with MPH. The ENA provided for the parties to attempt to negotiate an Affordable Housing and Property Disposition Agreement (AHPDA) or other form of agreement that would set forth the terms and conditions for the RSA's sale of a portion of the Site to MPH and a portion to the Clinics.

On December 12, 2017, the Board of Supervisors committed \$315,585 to MPH from the Low- and Moderate-Income Housing Asset Fund (LMIHAF) as predevelopment funding. The funds allowed MPH to conduct studies and develop preliminary designs to enable the project submittal to undergo environmental review. The predevelopment funding was allocated only to the affordable housing portion of such preliminary costs.

Analysis

Redevelopment Successor Agency Disposition of the Site

The role of MPH as the developer is to serve as lead partner with the County to develop a land use plan for the Site incorporating the community vision. MPH has a long history of collaborating with the County and surrounding communities to create affordable housing as well as broader goals set out through community planning initiatives. Working with the Clinics, MPH has developed a proposed mixed-use project for the Site, including interior circulation patterns, exterior site access, fire access to both parcels, infrastructure improvements, common areas and amenities as well as a shared parking plan for the commercial and residential uses (collectively, the Project). Elsewhere on today's agenda, the Board of Supervisors will consider the land use approval for the proposed Project, which was recommended by the Planning Commission on August 28, 2019.

The AHPDA sets forth the terms of the disposition of the Site from the RSA to the partnership established by MPH and the development and subsequent operation of the

Project consistent with the community vision. MPH led the Clinics through the process of negotiation of the AHPDA, and it is anticipated that the Clinics will proceed before the affordable housing project. The AHPDA is structured to map the Site into two parcels, with one parcel to be developed with the affordable housing project, and the second parcel to be further subdivided into two commercial condominiums for use by the Clinics.

The AHPDA contemplates that the affordable parcel and the two commercial condominiums established from the Clinics parcel will be sold to the applicable parties through the same closing transaction. Provided that the Clinics have satisfied certain closing conditions in favor of the RSA that are set forth in the AHPDA, the AHPDA provides for the RSA to enter into a separate disposition agreement with each Clinic for the sale and transfer of the respective condominium, and which will include construction requirements substantially similar to those in the AHPDA. The AHPDA further provides that at the close of escrow, (i) the RSA will assign the separate agreements with the Clinics to the County, and (ii) the County will enter into a regulatory agreement with each of the Clinics that obligates the Clinics to operate their respective Clinic and maintain their respective condominium for 15 years. The AHPDA's closing conditions in favor of the RSA include that the partnership established by MPH and the Clinics have entered into a series of agreements establishing access easements and setting forth the mechanism for ensuring construction, payment, and maintenance of the necessary common infrastructure.

The purchase price of the property has been determined through an appraisal report dated December 3, 2018 prepared by Valbridge Property Advisors as \$3,525,000. MPH will pay the portion of the appraised value that is attributable to the affordable housing development, which is \$2,850,000. The balance will be divided equally between the Clinics, with each of Dientes and SCCHC paying \$337,500 for their individual condominiums. These amounts will be paid at close of escrow based on certain performance provisions, and the net sales proceeds will be distributed to the affected taxing entities in proportion to their respective shares of taxes derived from the Site.

If approved by the RSA, the RSA's approval of the AHPDA is scheduled to be presented to the Santa Cruz County Consolidated Redevelopment Oversight Board at its January 2020 meeting for final approval. The AHPDA is included as Exhibit 1. A Schedule of Performance is incorporated into the AHPDA as Attachment 3.

County Funding of Affordable Housing Project

MPH is proposing a 57-unit affordable rental project with a mix of one, two- and three-bedroom rental apartments (one of which units would be an unrestricted manager's unit). One hundred percent of the rental units in the project will target Low Income households with household incomes ranging from 30% of the Area Median Income (AMI) to 80% of AMI, with the deepest affordability mix sustainable. MPH expects to seek federal Low-Income Housing Tax Credits for the project and will seek additional funding for the project through the Federal Home Loan Bank and the No Place Like Home Program for the project that is expected to total nearly \$38 million. MPH will also seek Project Based Vouchers through the Housing Authority of the County of Santa Cruz for approximately twenty-five of the homes.

The County requires affordable housing projects receiving County funding to provide a preference for households that live or work in Santa Cruz County. MPH has requested that the County permit MPH to provide an additional live-work preference for households that live or work in Live Oak. MPH has undertaken legal analysis that supports such a preference on the basis of the County and Live Oak having comparable demographics. All 56 of the rental units in the Project will be subject to the County's general live/work preference; the 25 units with Project Based Vouchers are available to a narrower subset of applicants through the Housing Authority, 15 units will have the Live Oak preference, and the remaining 16 units will be open to qualifying households who live or work in Santa Cruz County. As always, MPH will select tenants through a random drawing process subject to fair housing laws.

Redevelopment dissolution legislation provides for the retention and re-use of redevelopment housing funds placed into the LMIHAF. Use of the LMIHAF was clarified in 2013 through SB 341, which limits the use of redevelopment reuse funds to the production of affordable housing, certain administrative costs and limited support of homelessness prevention activities. The Housing Successor must ensure that every five years, commencing with the FY 2014-2015 to FY 2018-2019 five-year period, at least 30% of the LMIHAF is expended for the development of rental housing affordable to and occupied by households earning 30% or less of the Area Median Income. The funding allocation proposed pursuant to the AHPDA is consistent with this requirement.

The County is also required by SB 341 to report annually to the State of California on any Excess Surplus. The report received by the Board of Supervisors on March 26, 2019 and subsequently filed with the State reported that the LMIHAF does have Excess Surplus in the amount of \$1,088,673 and is required to timely encumber the funds to produce affordable housing or it risks losing the funds. Recommended funding for the project of \$5.0 million will resolve the Excess Surplus.

Financial Impact

Sale of the property will result in proceeds of \$3,525,000.00 which will be distributed to the affected taxing entities. \$5,000,000.00 from the Low-and Moderate-Income Housing Asset Fund (Fund 21-030-001) is budgeted for this purpose.

Strategic Plan Element(s)

- 1.A (Comprehensive Health & Safety: Health Equity)
- 2.A (Attainable Housing: Affordable Housing)
- 2.B (Attainable Housing: Community Development)
- 2.C (Attainable Housing: Local Inventory)
- 2.D (Attainable Housing: Homelessness)
- 4.A (Sustainable Environment: Outdoor Experience)
- 5.A (Dynamic Economy: Regional Workforce)
- 5.B (Dynamic Economy: Community Vitality)

Submitted by:

Carlos J. Palacios, County Administrative Officer

Recommended by:

Edith Driscoll, Auditor-Controller-Treasurer-Tax Collector

Attachments:

- a Affordable Housing and Property Disposition Agreement