



County of Santa Cruz Board of Supervisors

Agenda Item Submittal

From: Planning: Housing

(831) 454-2580

Subject: Revised Agreement for 1500 Capitola Rd. Mixed-Use Project

Meeting Date: November 10, 2020

Recommended Action(s):

Approve the assumption by the County of the rights and obligations of the Santa Cruz County Redevelopment Successor Agency (RSA) under a revised Affordable Housing and Property Disposition Agreement (Revised AHPDA) with MP Live Oak Associates, L.P. (MidPen) and authorize the Planning Director to execute an assumption agreement, implement the Revised AHPDA, and take related actions.

Executive Summary

The Revised AHPDA for the disposition of the Capitola Road Commercial Site (Site) reflects changes to the original Affordable Housing and Property Disposition Agreement (Original AHPDA), approved by the RSA and (for assumption following the RSA's transfer of the Site) by the County Board on November 5, 2019, to address environmental contaminants discovered on the Site in January 2020. MidPen has worked with County staff and the appropriate regulatory agencies to develop a mitigation plan that mitigates risks posed by the contamination and allows the mixed-use project to be developed as planned, however the sale price for the Site had to be revised to reflect these required mitigation costs.

Background

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 Corp. (MPHC) was selected as the lead developer for a mixed-use project to include a 57-unit affordable housing development and two clinics (Project). On November 5, 2019, (i) the RSA Board approved the Original AHPDA with MidPen, a limited partnership established by MPHC, for the sale of the Site, and (ii) the County Board approved (a) the expenditure of \$5,000,000 from the Low and Moderate-Income Housing Asset Fund to MidPen for an affordable housing project, and (b) assumption of the Original AHPDA by the County, and authorized the Planning Director to execute the assumption agreement and take related actions. A detailed background and history of the Project and a summary of the salient terms of the Original AHPDA is set forth in the November 5, 2019 Board Memorandum linked to this report.

Analysis

Shortly after approval of the Original AHPDA, MidPen commissioned a Phase II environmental assessment to be completed for the Site. The soil vapor investigation as part of the Phase II identified dry cleaning solvent contaminants on the Site. In

response, the County hired Weber, Hayes and Associates (WHA) to characterize the extent of the soil contamination and advise upon the methodology for mitigation for the Site, to enable the sale of the Site and the Project to proceed. A report prepared by WHA that summarizes this analysis, entitled “Chronology of Environmental Conditions Resulting in Required Mitigation that Decreases Property Value” (Environmental Summary Report) is attached to this report.

The Revised AHPDA includes additional and revised language to reflect the existence of contaminants on the Site, the mitigation requirements for developing the Site and the ongoing monitoring and management as required to protect human health and the environment by the Central Coast Regional Water Quality Control Board and the Monterey Bay Air Resources District. The original purchase price for the property (\$3,525,000) was determined through an appraisal report dated December 3, 2018, prepared by Valbridge Property Advisors. The purchase price has been reduced by \$2,117,399 to reflect the cost of vapor barrier mitigation required for developing the Site, and ongoing monitoring and management costs (Mitigation Costs), to a revised purchase price of \$1,407,601. MidPen will pay the value that is attributable to the portion of the Site to be developed with affordable housing, which is \$1,407,601. The purchase price for the portion of the Site to be developed with the clinics (i.e., Santa Cruz Community Health Centers and Dientes Community Dental Care) has been reduced to \$0, because the clinics’ Mitigation Costs equal or exceed the clinics’ share of the original purchase price for the land. The revised purchase price will be paid by MidPen at the close of escrow, upon satisfaction of various performance requirements set forth in the Revised AHPDA, 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. MidPen’s Project budget has been revised to reflect the shift in project costs from acquisition to mitigation costs. The total amount of the County Loan to the Project, consisting of \$5 million in Low-Moderate Income Housing Asset Funds (LMIHAF) as described further in the Revised AHPDA, remains the same as in the Original AHPDA

In November 2019, the County approved the assumption of the rights and responsibilities of the RSA under the Original AHPDA. To allow the Project to continue moving forward, the County must approve the assumption of the rights and responsibilities of the RSA under the Revised AHPDA, and authorize the Planning Director to execute an assumption agreement, implement the Revised AHPDA, and take related actions.

A companion item (# 9677) is included on the RSA's agenda for its November 10, 2020 meeting. If approved by the County and RSA, the Revised AHPDA is scheduled to be presented to the Santa Cruz County Consolidated Oversight Board at a special meeting with a date to be determined. Clean and strike-out versions of the Revised AHPDA, showing changes from the Original AHPDA, are attached below.

Strategic Plan Element(s)

- 2.A (Attainable Housing: Affordable Housing)
- 2.B (Attainable Housing: Community Development)
- 2.C (Attainable Housing: Local Inventory)
- 2.D (Attainable Housing: Homelessness)

Submitted by:

Kathleen Molloy, Planning Director

Recommended by:

Carlos J. Palacios, County Administrative Officer

Attachments:

- a Environmental Summary Report
- b Revised AHPDA (clean copy) 202 pages
- c Revised AHPDA (strikeout-underline) cover sheet with link
Revised AHPDA (strikeout-underline) 202 pages - online and on file

cc:

Planning Department