



## Staff Reports

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**File #:** 1575-2018, **Version:** 1

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**To:** Honorable Mayor and Members of City Council

**From:** Vincent Smith, Community Development Director

**Prepared By:** Lark Ferrell, Housing Manager

**TITLE:**

Redwood Grove, a 34-Unit Affordable Housing Project Located at 2033 Redwood Road

**RECOMMENDED ACTION:**

Adopt a resolution approving a \$650,000 increase in the previously approved \$1,025,000 loan to Burbank Housing Development Corporation for the Redwood Grove Project (2033 Redwood Road) for a total loan from the City's Affordable Housing Impact Fee Fund of \$1,675,000; authorizing the associated budget adjustment; and determining that the actions authorized by this resolution are exempt from CEQA.

**DISCUSSION:**

Redwood Grove (previously known as Redwood Duets) is a 34-unit affordable for-sale project proposed to be developed at 2033 Redwood Road (the "Project") by Burbank Housing Development Corporation (the "Developer"). Fourteen of the duets would be sold to households at or below 80% of area median income, ten would be sold to households at or below 100% of area median, and ten would be sold to households at or below 120% of area median.

In November 2017, the City approved a \$1,025,000 loan to the Developer for the Project from the City's Affordable Housing Impact Fee Fund. In connection with the loan, the City and Developer executed an Acquisition and Predevelopment Loan Agreement and a Declaration of Affordability Covenants ("Affordability Covenants"), which requires that all of the homes be sold to persons at moderate-income or below, with 14 units affordable to those at 80% of area median income or below, ten units affordable to those at 100% of median income or below, and ten units affordable to those at 120% of median or below and that the homes remain affordable at such levels for 45 years. The loan is evidenced by a Secured Promissory Note executed by the Developer and is secured by a Deed of Trust, which is recorded against the property along with the Affordability Covenants. The County similarly approved a \$1,025,000 loan. Under the terms of these loans, as the homes are sold, the loans will convert to deferred loans to the homebuyers. The proceeds of the City's original \$1,025,000 loan were disbursed to the Developer in July 2018 to fund the acquisition of the property and predevelopment costs.

In July 2018, the Developer notified the City and the County that the Project had a funding gap of \$1.3 million. This is gap is due to two factors. First, rising construction costs have increased the construction budget by \$1.7 million. The Developer was able to make some minor design changes to

the Project which offset this increase by approximately \$650,000, leaving a net increase in construction costs of approximately \$1,050,000. Second, because mortgage interest rates have increased, the mortgage loans low and moderate income homebuyers can afford have decreased. This has resulted in an additional financing gap of approximately \$250,000. Therefore, the Developer requested the City and the County each increase its loan by \$650,000.

Although the County approved an additional loan of \$650,000 in September 2018, the City's request has been delayed. This is because City staff had hoped to use \$650,000 in HOME program income funds for its portion of the additional funding. In July 2018, City staff reached out to the State of California HOME Program to confirm whether the Project would be eligible for HOME funds. HOME staff indicated that because the City would require resale restrictions for the Project as a condition of the City's local funding, the Project was still eligible for HOME funds. Therefore, in early August 2018, City and Developer staff jointly submitted an application to the State HOME Program for approval to use \$650,000 in HOME program income to provide additional funds for the Project. However, in late December 2018, the City was informed that, because of the resale restrictions, the Project was not eligible for HOME funding. Therefore, City staff now recommends Council authorize the additional \$650,000 in funding for the Project from the City's Affordable Housing Impact Fee fund on the same terms as the original loan, for a total loan of \$1,675,000 and authorize the City Manager to execute amendments to the loan documents to reflect the increased loan amount.

The City and County funding equate to an average local subsidy per unit of \$98,530. This is still well below the typical subsidy required to produce affordable housing both in Napa and throughout California. The Redwood Grove homes would be sold for approximately \$440,000. This is \$216,000 below the average sales price in Napa and significantly below the current sales prices for new homes. Without the Project and the funding provided to the homebuyers, these 34 homeowners would not be able to afford homes in Napa.

The attached resolution (Attachment 1) would authorize the City to increase its loan to the Developer by \$650,000, for a total loan of \$1,675,000 from the Affordable Housing Impact Fee Fund. Approval of this funding would allow the Developer to move forward on this Project. There are currently over 90 pre-qualified buyers anxiously waiting to purchase these 34 homes. In the fall, the Developer conducted a lottery for the buyers. If this item is approved, the Developer is ready to sign a construction contract immediately which would allow construction of these homes to begin.

#### **FINANCIAL IMPACTS:**

This action has no impact to the General Fund. However, approving an increase in the loan from \$1,025,000 to \$1,675,000 would result in the commitment of an additional \$650,000 from the City's Affordable Housing Impact Fee Fund (22201-58608). This would leave an uncommitted fund balance of approximately, \$3.5 million available for other affordable housing projects.

#### **CEQA:**

The Community Development Director has determined that the actions authorized by this Resolution are exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15332 which exempts in-fill development projects that are consistent with the General Plan and Zoning Ordinance; that occur within City limits and are on sites no more than five acres in size; that are on sites with no value as habitat for endangered, rare or threatened species; that would not result in any significant effects relating to traffic, noise, air quality, or water quality; and that can be

adequately served by existing utilities.

**DOCUMENTS ATTACHED:**

ATCH 1: Resolution for Loan Increase to Burbank for Redwood Duets

**NOTIFICATION:**

Burbank Housing Development Corporation and the County were notified of the agenda item.