



MEMORANDUM

TO: City Council

FROM: Matthew Downing, City Manager

BY: Brian Pedrotti, Community Development Director

SUBJECT: Consider Commitment of Grant Authorization to Housing Authority of San Luis Obispo, for Additional Funding of a 63-Unit Affordable Housing Project at 700 Oak Park Blvd

DATE: October 22, 2024

RECOMMENDATION:

Adopt a Resolution to:

- 1) Provide a commitment by the City of Arroyo Grande for a grant from the City's Affordable Housing Trust Fund, to the Housing Authority of San Luis Obispo (HASLO) for the design, funding, construction and management of a 100% affordable housing project in the City of Arroyo Grande;
- 2) Authorize a budget adjustment request in a not-to-exceed amount of \$630,000 from the Affordable Housing Trust Fund; and
- 3) Authorize the City Manager to negotiate a grant agreement and any other associated documents, between the City and HASLO, establishing the terms of the grant for a total commitment and not-to-exceed amount of \$630,000.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The fiscal impact of approving the attached Resolution and contemplated, corresponding documents, for a grant amount of \$630,000 in FY 2024-2025, will be 100% funded from the City's Affordable Housing Trust Fund. The current balance of the City's Affordable Housing Trust Fund is approximately 858,600.

BACKGROUND:

On [May 18, 2021](#)¹, the Planning Commission approved an application from the Housing Authority of San Luis Obispo (HASLO) for Conditional Use Permit 21-001 and Lot Merger 21-001 for a mixed-use development consisting of 63 multi-family residential units, a 1,342 square-foot community room, and 1,178 square feet of commercial space. All of the units would be reserved for lower-income households in perpetuity. The project also

¹ <https://www.arroyogrande.org/AgendaCenter/ViewFile/Item/11035?fileID=17216>

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includes outdoor recreational space with a barbeque area and children’s playground near the remaining grove of oak trees near the eastern portion of the project site for the residents of the development. The 63 dwelling units are proposed in three (3) separate, three-story buildings. Two (2) of the buildings would be located along the El Camino Real frontage and one (1) along the Chilton Street frontage. Construction documents have been submitted and are currently in the review process. During the plan review process, HASLO submitted a request for a contribution from the City’s Affordable Housing Trust Fund to assist with defraying construction costs. Arroyo Grande Municipal Code (AGMC) Section 16.80 implements the City’s Inclusionary Housing Ordinance and establishes the regulations and administration of the Affordable Housing Trust Fund. Affordable housing requirements apply to residential projects proposing two or more housing units, not including the projects consisting of a single-family residence and an accessory dwelling unit. Projects subject to the inclusionary housing ordinance have the option of reserving a percentage of the proposed units for lower income households or paying the affordable housing in-lieu fee. The in-lieu fee is equal to five percent (5%) of the construction valuation. All affordable housing in-lieu fees are deposited into the Affordable Housing Trust Fund – Fund 232 for Budgetary purposes. The Municipal Code states the purpose of the Affordable Housing Fund is “solely to increase the supply of affordable housing units. Funds in the affordable housing trust fund may be used to better facilitate the improvement of the city's affordable housing stock as well as the provision of new affordable units.”

On [July 25, 2023²](#), Council approved a Development Review and Impact Fee Grant allocation from the Affordable Housing Trust Fund in a not-to-exceed amount of \$448,370.37 to support the development of HASLO’s affordable housing project consisting of 63 affordable multi-family units located at 700 Oak Park Blvd. A breakdown of the permit fees for this project that City Council approved on July 25, 2023, is provided in Table 1 below:

Table 1: Breakdown of Permit Costs	
Plan Review	\$33,620.92
Inspection	\$39,744.22
Utilities	\$261,070
Development Impact Fees	\$110,927.23
State Mandated Fees	\$3,008
Total	\$448,370.37

ANALYSIS OF ISSUES:

Due to rising interest rates and inflationary increases that have occurred since the project was approved in 2021, HASLO continues to face a funding gap of approximately \$1 million to construct this project. See Attachment 2 for the funding request letter from

² <https://pub-arroyogrande.escribemeetings.com/filestream.ashx?DocumentId=7973>

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HASLO. The request from the Affordable Housing Trust Fund would cover a significant portion of the funding gap to allow construction of the project, and ultimately, get local residents into affordable units. HASLO will also be applying for Low Income Housing Tax Credit funding from the State for this project. The tax credit funding is highly competitive and projects that are able to secure and leverage the most local funding tend to be awarded State funding. HASLO has informed the City that to secure additional tax funding, they need to close on the property no later than November 20th of this year, and are seeking additional funds before that time to increase the likelihood they make up the remaining budget shortfall with additional tax credit funding.

Process

HASLO submitted a letter formally requesting a contribution from the Affordable Housing Trust Fund to cover the funding gap in order to begin construction on this project (Attachment 2). A contribution from the Affordable Housing Trust Fund will not only directly benefit the project by reducing the financial burden to construct the project, it may also prove to be critical to secure additional State funding. The Community Development Director is responsible for the general administration of the Affordable Housing Fund, and pursuant to the regulations adopted by City Council. Formal procedures and policies for the disbursement of funds from the Affordable Housing Trust Fund have not been established, so for the purposes of this project, staff is requesting that Council provide direction authorizing the City Manager, in consultation with the City Attorney, to develop a grant agreement and any related documents in a not-to-exceed amount of \$630,000, with required conditions and consistent with applicable law.

ALTERNATIVES:

The following alternatives are provided for the Council's consideration:

1. Adopt a Resolution to: 1) Provide a commitment by the City Council of Arroyo Grande for a grant from the City's Affordable Housing Trust Fund, to the Housing Authority of San Luis Obispo (HASLO) for the design, funding, construction and management of a 100% affordable housing project in the City of Arroyo Grande; 2) Authorize a budget adjustment request in a not-to-exceed amount of \$630,000 from the Affordable Housing Trust Fund; and 3) Authorize the City Manager to negotiate a grant agreement and any other associated documents, between the City and HASLO, establishing the terms of the grant for a total commitment and not-to-exceed amount of \$630,000;
2. Do not adopt the Resolution; or
3. Provide other direction to staff.

ADVANTAGES:

A loan from the Affordable Housing Trust Fund will support the construction of a 63-unit housing development for lower income households and help the City meet its RHNA target for new affordable units.

Item 9.g.

DISADVANTAGES:

The allocation of funding to this project will reduce the balance of the Affordable Housing Trust Fund, making those funds unavailable to other projects. However, the City has no current requests from this fund, has only received one recent request from this fund in 2017, and staff is unaware of any other current projects that are eligible to receive an allocation from this fund.

ENVIRONMENTAL REVIEW:

In compliance with the California Environmental Quality Act (CEQA), the proposed grant agreement of funds from the Affordable Housing Fund does not qualify as a “project” under CEQA because the action will not result in a direct or reasonably foreseeable indirect physical change in the environment. (State CEQA Guidelines section 15060, subd. (c)(2), (3).) Section 15378 of the State CEQA Guidelines defines a project as the whole of an action, which could potentially result in either a direct physical change, or reasonably foreseeable indirect physical change, in the environment. Here, the action of disbursing the funding will not in itself result in any construction or development, and it will not have any other effect that would physically change the environment. The action therefore does not qualify as a project subject to CEQA. The project itself was granted a categorical exemption when it was approved in 2021. This disbursement of funds will not affect this prior determination.

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City’s website in accordance with Government Code Section 54954.2.

ATTACHMENTS:

1. Proposed Resolution
2. HASLO Letter