



## MEMORANDUM

**TO:** City Council

**FROM:** Brian Pedrotti, Community Development Director

**BY:** Andrew Perez, Planning Manager

**SUBJECT:** Consider Approval of Allocation from the Affordable Housing Trust Fund to Support the Affordable Housing Project at 700 Oak Park Blvd

**DATE:** July 25, 2023

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### **SUMMARY OF ACTION:**

City Council's authorization of Affordable Housing Trust Funds in a not-too-exceed amount of \$448,370.37 will allow the City Manager, in consultation with the City Attorney and Community Development Director, to execute a regulatory agreement with grant conditions between the City and the Housing Authority of San Luis Obispo (HASLO) establishing the terms of the contribution from the City's Affordable Housing Trust Fund to support the development of HASLO's affordable housing project consisting of 63 affordable multi-family units located at 700 Oak Park Blvd.

### **IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:**

The proposed action will authorize a contribution in a not-too-exceed amount of \$448,370.37 from the City's Affordable Housing Trust Fund to cover costs associated with the building permit, including plan review and inspections, development impact fees, utility connections, and State mandated fees for the project.

The current balance of the City's Affordable Housing Trust Fund is approximately \$1.1 million. The proposed action includes a budget adjustment request that will allocate \$448,370.37 from the Affordable Housing Trust Fund and apply it to the accounts for building permit plan review, inspections, development impact fees, and utilities.

### **RECOMMENDATION:**

Adopt a Resolution: 1) authorizing a budget adjustment request in a not-to-exceed amount of \$448,370.37 from the Affordable Housing Trust Fund; 2) authorize the City Manager, in consultation with the City Attorney and Community Development Director, to execute a regulatory agreement with grant conditions between the City and the Housing Authority of San Luis Obispo (HASLO) establishing the terms of the contribution from the

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City's Affordable Housing Trust Fund to HASLO's affordable housing project located at 700 Oak Park Blvd in that not-to-exceed amount of \$448,370.37.

**BACKGROUND:**

On May 18, 2021, the Planning Commission approved an application from the Housing Authority of San Luis Obispo (HASLO) for a Conditional Use Permit 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 (Attachment 1). All of the units would be managed by HASLO and reserved for lower income households in perpetuity. The project also 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 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.”

**ANALYSIS OF ISSUES:**

Permit Fees

Following approval of the CUP for this Project, remaining permit fees cover the cost of plan reviews, inspections, utility connections, development impact fees, and State mandated fees. A breakdown of these fees for this project is provided in Table 1.

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**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

Due to rising interest rates and inflationary increases that have occurred since the project was approved in 2021, HASLO is facing a funding gap of approximately \$1 million to construct this project. The request from the Affordable Housing Trust Fund would cover the cost of the permit fees identified in Table 1 to allow construction of the project. These fees are applicable to all mixed-use projects. Plan reviews fee cover the costs associated with staff review of the construction documents to ensure compliance with the Building Code. Similarly, the inspection fees cover the costs for the periodic inspections during construction to verify the structures are being built according to the approved plans. Utility fees pay for the infrastructure and the physical connection to City water and sewer utilities. Development impact fees are collected to mitigate the impacts of the project on public safety, transportation facilities, parks, and community facilities. Each building permit also includes fees that contribute to State programs for sustainability and seismic research. 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.

Process

HASLO submitted a letter formally requesting a contribution from the Affordable Housing Trust Fund to cover fees imposed by the City and State to begin construction on this project (Attachment 2). These include the plan review and inspection costs, development impact fees, utilities, and State mandated fees. 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 approve a contribution of \$448,370.37 from the Affordable Housing Trust Fund to HASLO to construct the project approved for 700 Oak Park Blvd. If authorized by the City Council, a regulatory agreement establishing the terms and conditions of the contribution will be executed to ensure the funding is used to increase the supply of affordable housing units, that the housing units remain affordable and to

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ensure the City has sufficient grant conditions to ensure consistency with any applicable authorities.

**ALTERNATIVES:**

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

1. Adopt a Resolution authorizing a budget adjustment request in a not-too-exceed amount of \$448,370.37 from the Affordable Housing Trust Fund AND authorize the City Manager, in consultation with the City Attorney and Community Development Director, to execute a regulatory agreement with grant conditions between the City and the Housing Authority of San Luis Obispo (HASLO) establishing the terms of the contribution from the City's Affordable Housing Trust Fund to HASLO's affordable housing project located at 700 Oak Park Blvd in that not-too-exceed amount of \$448,370.37;
2. Modify and adopt the Resolution authorizing the disbursement; or
3. Provide other direction to staff.

**ADVANTAGES:**

An allocation from the Affordable Housing Trust Fund will support the construction of a 63-unit housing development for lower income households.

**DISADVANTAGES:**

The allocation of funding to this project will reduce of the balance of the Affordable Housing Trust Fund, making those funds unavailable to other projects. However, the City has only received one other request from this fund, and staff is unaware of any other projects that are eligible to receive an allocation from this fund.

**ENVIRONMENTAL REVIEW:**

In compliance with the California Environmental Quality Act (CEQA), the disbursement 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 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.

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Attachments:

1. Proposed Resolution
2. HASLO Letter