



**REPORT TO MAYOR, CITY COUNCIL, and  
REDEVELOPMENT AGENCY BOARD**

AGENDA ITEM

TO: THE HONORABLE MAYOR,  
CITY COUNCIL, AND  
REDEVELOPMENT AGENCY BOARD

DATE: February 19, 2008

SUBJECT: Allocation of Redevelopment and Community Development Block  
Grant Funds for Various Projects

**Report in Brief**

Staff requests that the City Council and Redevelopment Agency consider reallocating Community Development Block Grant (CDBG) funds and tax increment funds for various projects.

Staff recommends that the City Council

- Hold a Public Hearing to consider amending the CDBG Action Plan to transfer approximately \$140,000 in CDBG funds currently dedicated for a HUD Section 108 loan payment to a streetlighting project, and
- Re-appropriate the \$140,000 in the General Fund originally encumbered for the streetlighting project back to the General Fund, and

Staff recommends that the Redevelopment Agency

- Allocate \$140,000 in tax increment housing set aside funds to repay the HUD Section 108 loan;
- Approve the use of \$60,000 from redevelopment bond proceeds to assist in off-site improvements adjacent to the Capitol Hotel, and
- Allocate \$150,000 to develop a new calibrated City sewer system model to accommodate development downtown.

These actions are consistent with the CDBG Consolidated Plan goals to reduce blight and assist low and moderate-income people. The actions also help implement the current Redevelopment Implementation Plan and the Downtown Specific Plan.

**Background**

**HUD Section 108 loan payment**

The City received a \$1,000,000 loan from HUD in June 2004 to support the Casa del Sol Mobile Home Park acquisition and rehabilitation project. The term of the loan is ten years, ending in

August 2014. The Section 108 program allows the City to borrow against its future CDBG allocations to fund projects benefiting low and moderate income individuals. Payments of about \$140,000 have been made every year from CDBG entitlement funds since the loan was approved. However, according to the HUD Section 108 manager, funds other than CDBG can be used to make this payment. If other funds were used, the \$140,000 would then be available for other CDBG-eligible activities. It is proposed that these CDBG funds be used on the Elm and Third Street streetlighting project and the funds previously budgeted for this capital project be returned to the General Fund.

The HUD Section 108 loan can be repaid with Redevelopment Housing Set-Aside funds. Each year 20% of the gross tax increment received must be earmarked for the Housing Set –Aside fund and used to provide affordable housing. Under California Redevelopment Law, this typically means providing housing that has an affordability restriction of 45 years for owner occupied units or 55 years for rental projects. Since the redevelopment area was established in 1988, there has only been one eligible housing activity funded by tax increment and that was for the Greenwood First Time Homebuyer loan program. Unfortunately the regulatory restrictions were not enforceable upon refinancing and most of the affordability safeguards have been lost on that project.

Often redevelopment agencies find it difficult to identify eligible redevelopment housing projects. This is particularly true in regards to assisting owner-occupied single-family projects because it is required that the units remain affordable to low and moderate income households by restricting the sales price for 45-years. Agencies have been more successful in funding large multi-family projects. Tax increment funds on these large rental projects are a good match for leveraging state grant funds as well as bond and tax credit financing. Housing Set-Aside tax increment is usually used as gap funding between the amount of funds needed to do the project and the amount of income generated by the restricted rents. Sources of public financing for multi-family projects coordinate well with redevelopment because they have similar requirements, particularly the affordability restrictions.

There is also pressure to spend the housing set aside tax increment money and get projects completed, and not save the funds in “surplus”. The State and other watchdog organizations review redevelopment agencies’ housing activities every year. Under these circumstances, it is prudent for the Redevelopment Agency to aggressively look for eligible projects. The Casa del Sol Mobilehome Park project is a perfect candidate for the use of redevelopment housing set-aside funds. If approved, it is a simple administrative procedure to replace CDBG funds with redevelopment funds to make the HUD 108 payment. The federal government only requires that the source of collateral not be changed. If the Casa del Sol project is not developed as planned, the funds can be transferred to another eligible project.

## **CAPITOL HOTEL**

Another important project downtown is the renovation of the Capitol Hotel. Tim Mullikan of Pilot Properties purchased the property in 2006 and has received Planning Commission approval. The project is the rehabilitation of the existing three story 11,250 s.f. structure with the addition of 3,850 s. f. in the rear of the building to house an elevator. The original building will accommodate ground floor retail/restaurant space, second floor office space and five residential loft units on the third

floor. A substantial amount of work has already been completed. Pilot Properties has finished the seismic retrofitting, is updating the electrical and plumbing systems, adding fire suppression sprinklers, and completely rebuilding the interior.

During the process, the developer has diligently followed the Secretary of the Interior's Standards for historic preservation. The work has been reviewed and approved by the State Historic Preservation Officer and the developer expects to be approved to receive tax credits for historic preservation--- a significant accomplishment. The developer has not requested any assistance to this point from the Redevelopment Agency other than the \$30,000 for storefront improvements allowed under the terms of the Facade Improvement Program approved by the Agency Board last July.

Staff would like to further assist the developer by providing funds for the public off-site improvements required by the City. These include traffic control improvements, installing curb, gutter, and sidewalks, constructing a new driveway, and improving the water and sewer system serving the property. These are estimated to cost up to \$60,000. The work items and costs have been reviewed by the City's Public Works staff. These are the only parts of the project the Agency can assist financially without triggering costly regulations for the entire project, specifically the requirement to pay prevailing wages for all the construction work.

Staff believes that this is a reasonable request because it is a landmark project; one the City has identified as key to Downtown revitalization. Renovation of this building has been listed as a redevelopment goal in previously approved redevelopment plans going back to the Implementation Plan of 1995. No construction activity has happened on this site to restore this building until now. A review of the financial structure of the project indicates that it is unlikely the rental revenues received will cover the construction cost financing for 10 years or longer. The owner is prepared to subsidize the property for the long term. Because of these circumstances, it is suggested that the Agency's financial assistance be structured as an interest-free loan, but with the debt forgiven upon completion of the project. Approval of this request would help assist an important catalyst project in the Downtown and may generate additional interest in the redevelopment of historic properties.

## **SEWER INFRASTRUCTURE ENGINEERING**

The most significant obstacle to developing Downtown is the inadequate infrastructure, especially the wastewater sewer system. The higher density development that is being attracted to Downtown was not initially considered in the City's 1996 General Plan. Therefore the effects on the existing collection system as reported in the 1999 Wastewater Collection System Master Plan often exceed the capacity of the existing system. Before development can occur, the City needs to update its hydraulic model to determine maximum flows and water surface elevations. The system may not be adequate for the increased densities of projects that are currently proposed such as City Center Lofts and other multi-story mixed-use projects. As a consequence, developers must, for each individual project, conduct an analysis and replace the system serving the site. This results in considerable increases in time and money to complete these projects and deters developers from considering investing in Downtown. This project-by-project approach also results in piecemeal improvements to the system, which is more expensive overall than evaluating it as a whole and making the most efficacious repairs.

The Redevelopment Agency should make sites “development ready” before projects are proposed by developers. That would save the developer time and money—their two most serious concerns. The first step to improving the situation is to update the calibrated City sewer model used by Public Works (PW). An improved model can locate the deficiencies in the system and identify alternatives through GIS mapping of where improvements should happen. PW staff do know that a major overhaul of the sewer system is needed along Lincoln Avenue and East Street—the two trunks that serve Main Street—but the existing model cannot tell exactly where and what should be done. The Downtown lines are not included in the current model. Once expanded, the model will show solutions for development and look at alternatives under various density levels. After six to nine months, the model will provide information and actual construction on the sewer lines can begin subject to the City Council’s review and approval. There are funds in the City’s enterprise fund for repair and replacement, but until the model is finished, actual replacement cannot start.

Updating the sewer model is the first step in upgrading the infrastructure system and attracting development Downtown. In discussions with City Planning, Redevelopment and Economic Development staff, it was agreed that lack of sufficient infrastructure Downtown, especially the sewer system, is the most significant obstacle facing development and should be a priority when proceeding in implementing the Specific Plan. Regardless of more comprehensive planning and visioning efforts, the updating of the City sewer calibration model will have to happen under any scenario. Having this information also puts the City in a position to apply for grant funds from the State for actual construction costs.

### **Discussion**

#### **CDBG**

Staff is proposing some changes in the budgeting of the CDBG entitlement funds. The recommendation to make the HUD Section 108 loan payment with redevelopment housing set aside funds instead of CDBG funds is the largest request, but it has the significant impact of freeing up General Fund money that was otherwise dedicated to public works construction activities at a time when such savings are of critical importance to the City financial status.

#### **Capitol Hotel Redevelopment Financial Assistance**

The \$60,000 loan to the Capitol Hotel developer is the only way the Agency can assist this project without triggering expensive regulatory requirements, like payment of prevailing wages, on the rest of the project. It is possible this project could be completed without Agency assistance, but the Agency aid ensures more rapid completion, encourages the continued use of quality materials and workmanship, and gives the developer the option to not reduce the scope of the work. The loan can be funded from the new redevelopment bond. This is also consistent with the City Council’s stated focus to encourage economic development and downtown redevelopment.

### **Fiscal Impact**

The Proposed changes in the CDBG budget will release \$140,000 back to the General Fund.

Using redevelopment funds for the HUD Section 108 loan payment will give the Agency credit for a much needed affordable housing project, but also will reduce the amount available for other housing projects by \$140,000 annually until 2014 when the HUD 108 loan will be fully repaid. It is projected that the Housing Set Aside tax increment revenue received will be \$272,000 in 2008 and will increase by at least 2% in subsequent years to \$307,000 in 2014. This means that only \$140,000 to \$170,000 in new Housing Set Aside funds will be available for new projects. However, there are no other obligations on those funds---a remaining loan was paid off this year---and there is approximately \$631,251 remaining in the Housing Set Aside Fund Balance for any new project.

Other City funds are available for housing projects in the redevelopment project area as well. Specifically, staff is required to build at least one new housing project of a minimum of 76 units in the redevelopment project area using the Spring Lake Off-Site Affordable Housing fee. That fund now has a balance of \$1,137,400 and it will grow at a rate of \$1,100 for every new housing unit built in Spring Lake. Also, redevelopment staff has been very successful in obtaining funds for housing projects from other state and federal sources. Therefore, staff believes that use of the Housing Set Aside funds as described herein will not limit the City's ability to facilitate and support future affordable housing projects.

Financial assistance to the Capitol Hotel project was identified as an appropriate use of redevelopment funds in the Redevelopment 2007 Tax Allocation Bond. That bond provided \$4.41 million in tax-exempt bond funds and \$1.5 million in taxable bond funds. This project would use tax-exempt bond funds because the loan is not expected to be paid back. Overall, bond funds are expected to be committed to projects within three years of bond issuance.

### **Public Contact**

Information has been provided to the public through the posting of the City Council agenda. Additionally, extensive discussions have taken place with the developer of the Capitol Hotel.

### **Alternative Courses of Action**

These are the alternatives open to the City Council and Redevelopment Agency

1. Staff recommends that the City Council:
  - Reallocate an estimated \$140,000 currently used for a HUD Section 108 loan payment to a streetlighting project at Elm and Third (PPSS 07-46)
  - Redirect the estimated \$140,000 in General Fund monies originally encumbered for the streetlighting project back to the General Fund reserve

2. Alternative action for the City Council:
  - Do not reallocate the \$140,000 in CDBG entitlement to the public works capital project and continue to use General Fund monies for the public works project.
3. Staff recommends that the Redevelopment Agency Board:
  - Allocate the estimated \$140,000 in tax increment housing set aside funds to repay a HUD 108 loan this year and every year until the loan is repaid in 2014.
  - Approve the use of \$60,000 from redevelopment bond proceeds to assist in off-site improvements adjacent to the Capitol Hotel, and
  - Allocate \$150,000 to develop a new calibrated City sewer system model to accommodate development downtown
4. Alternative actions for the Redevelopment Agency Board:
  - Do not allocate \$140,000 in Housing Set Aside funds to repay the HUD 108 loan.
  - Do not approve the \$60,000 loan for the Capitol Hotel project, and
  - Do not allocate funds to the new City sewer system model.

**Recommendation for Action**

Staff recommends that the City Council approve Alternative No. 1 and that the Redevelopment Agency Board approve Alternative No. 3.

Prepared by: Cynthia Shallit,  
Redevelopment Manager

Reviewed by: Barry Munowitch, AICP  
Assistant City Manager

Reviewed by: Gary Wagener  
Public Works Director

Reviewed by: Joan Drayton  
Finance Director

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Mark G. Deven  
City Manager

**AGENCY RESOLUTION NO. \_\_\_\_\_**

**A RESOLUTION OF THE REDEVELOPMENT AGENCY OF  
THE CITY OF WOODLAND AUTHORIZING THE ALLOCATION OF TAX  
INCREMENT FUNDS TO THE CAPITOL HOTEL PROJECT AND TO  
PAYMENT OF A HUD SECTION 108 LOAN**

**WHEREAS**, the desire to improve the image of downtown Woodland (“Downtown”), restore historic buildings and upgrade the infrastructure are goals of the General Plan, the Downtown Specific Plan, the Redevelopment Implementation Plan, and the Action Plans prepared for the Community Development Block Grant program (“CDBG”); and

**WHEREAS**, the owner of the Capitol Hotel has requested financial assistance to renovate that property and construct site improvements as required by the City Community Development Department; and

**WHEREAS**, the sewer system in the Downtown does not have the capacity to accommodate higher density uses such as additional residential units or mixed use projects; and

**WHEREAS**, it is possible to increase the General Fund replacing the General Fund money allocated to the streetlighting project at Third and Elm streets with CDBG funds and replacing the HUD Section 108 payment now paid by CDBG funds with Redevelopment Housing Set-Aside funds.

**NOW THEREFORE BE IT RESOLVED THAT** the Redevelopment Agency Board authorizes the Executive Director to:

1. Allocate an estimated \$140,000 in Housing Set-Aside Tax Increment funds to the HUD Section 108 loan payment;
2. Return the \$140,000 currently allocated to the Elm and Third streets streetlighting project ((PPSS-08-06) back to the General Fund;
3. Allocate \$140,000 in CDBG funds to the Elm and Third streets streetlighting project,;
4. Approve the Owner’s Participation Agreement with the owner of the Capitol Hotel (on file with the Agency Secretary) providing for a \$60,000 loan to pay for off-site improvements;
5. Allocate \$150,000 to update the City Sewer Calibration model; and
6. Authorize the Finance Director to make all budget changes necessary to accomplish the foregoing.

PASSED AND ADOPTED THIS 19<sup>th</sup> DAY OF FEBRUARY 2008, BY THE FOLLOWING VOTE:

AYES:  
NOES:  
ABSTAIN:  
ABSENT:

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Chairman

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Secretary

**RESOLUTION NO. \_\_\_\_\_**

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WOODLAND TO AMEND THE  
COMMUNITY DEVELOPMENT BLOCK GRANT ACTION PLAN AND TO RE ALLOCATE  
FUNDS FOR A STREETLIGHTING PROJECT AND TRANSFER FUNDS TO THE GENERAL  
FUND**

WHEREAS, the City of Woodland has been using Community Development Block Grant Funds for the payment of a Housing and Urban Development Section 108 Loan; and

WHEREAS, there are some public works projects that are eligible for CDBG expenditures, such as the streetlighting project at Third and Elm streets; and

WHEREAS, there may be benefits to the General Fund by shifting funding sources to different activities; and

WHEREAS, the City Council has held a public hearing to consider amending the CDBG Action Plan at which all those interested in speaking with respect to the financing re-allocations were heard.

NOW, THEREFORE, BE IT RESOLVED as follows:

Section 1. The City Council hereby finds and determines that the foregoing recitals are true and correct.

Section 2. The City Council hereby approves amending the CDBG Action Plan to transfer payment of the HUD Section 108 loan to the streetlighting project at Third and Elm streets.

Section 3. The City Council hereby approves re-appropriating \$140,000 in General Funds currently allocated to the streetlighting project back to the General Fund.

Section 4. The City Council hereby authorizes the Finance Director to make the appropriate budget augmentations and transfers as specified.

Section 5. This Resolution shall take effect from and after the date of its passage and adoption.

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PASSED, APPROVED AND ADOPTED this 19<sup>th</sup> day of February, 2008.

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David M. Flory  
Mayor of the City of Woodland

ATTEST:

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Sue Vannucci,  
City Clerk of the City of Woodland