



|               |                  |
|---------------|------------------|
| AGENCY:       | City Council     |
| MEETING DATE: | April 27, 2015   |
| DEPARTMENT:   | Community Devel. |
| PRESENTED BY: | J. Owen          |

## AGENDA ITEM SUMMARY

### **TITLE:**

**RECEIVE REPORT AND CONSIDER ADOPTING CITY COUNCIL RESOLUTION APPROVING A FORGIVABLE LOAN AGREEMENT WITH MENDOCINO COAST HOSPITALITY CENTER TO USE FUNDS FROM COMMUNITY DEVELOPMENT BLOCK GRANT #14-CDBG-9881 TO ACQUIRE AND REHABILITATE THE OLD COAST HOTEL AND AUTHORIZING CITY MANAGER TO EXECUTE SAME (AMOUNT NTE: \$1,162,791; ACCOUNT NO. 315-5014-0630 AND 315-5014-0632)**

### **ISSUE:**

On January 12, 2015, the Fort Bragg City Council adopted Resolution #3768-2015 to authorize use of Community Development Block Grant (CDBG) funding awarded in the City's 2014 grant #14-CDBG-9881 to acquire a homeless services facility at 101 North Franklin Street (Old Coast Hotel) on behalf of the non-profit Mendocino Coast Hospitality Center (MCHC). Pursuant to CDBG grant Special Conditions, the City must enter into a loan agreement (Agreement) with MCHC prior to the release and use of CDBG funds. The proposed Agreement requires that MCHC provide services as described in the 2014 CDBG grant application for a period of 20 years. This term exceeds the minimum five-year regulatory period required by CDBG. Other conditions include maintenance of the property, protection of historical attributes of the building, documentation of adequate insurance coverage, and conditions related to City approvals required for the rehabilitation project. The proposed Agreement states that if MCHC complies with the covenants and conditions, the loan will be forgiven after 20 years. To approve the loan and the release of grant funds to MCHC for the acquisition and rehabilitation of the Old Coast Hotel, a Resolution (Attachment 1) approving the Agreement must be adopted by the City Council.

### **RECOMMENDED ACTION:**

Adopt City Council Resolution Approving a Forgivable Loan Agreement with Mendocino Coast Hospitality Center to use Funds from Community Development Block Grant #14-CDBG-9881 to Acquire and Rehabilitate the Old Coast Hotel and Authorize City Manager to Execute Same (Amount \$1,162,791; Account No. 315-5014-0630 AND 315-5014-0632)

### **ALTERNATIVE ACTION(S):**

1. No action. If the Agreement is not executed, Special Conditions cannot be cleared and the transaction cannot proceed with CDBG funding. Another location may be sought, but if grant funding is not expended before the next CDBG "Super NOFA" grant cycle, the City would be unable to apply for new CDBG funding until 50% of the current grant funds are spent or the grant expenditure termination date is reached (October 31, 2017).
2. Continue action. If action is continued past the April 30, 2015 expiration date of the Extended Purchase Option between Mendocino Coast Hospitality Center and the property owners, the sellers could terminate negotiations and the opportunity to purchase the property at the discounted price could be jeopardized.

## **ANALYSIS:**

### **I. PROJECT DESCRIPTION**

#### **A. Proposed Use**

Mendocino Coast Hospitality Center (MCHC) proposes to reuse the Old Coast Hotel, a 12,240 square foot (SF) building located at 101 North Franklin Street that previously was operated as a 15-unit hotel, offices, restaurant, and bar. The Old Coast Hotel was most recently operated in 2010, and has remained vacant since that time except for a rental of the office unit fronting Oak Street. Proposed reuse of facility is as follows:

- Transitional housing: 3,144 SF of space to be organized into two dwelling units with a total of five bedrooms for up to 10 adults (and children).
- Manager's apartment: 604 SF dwelling unit for the on-site housing manager.
- Administrative offices: 3,319 SF of office space for administrative offices and counseling services; estimated 10 employees.
- Wellness Center: 1,668 SF of multi-purpose space; to serve approximately 38 clients per week; estimated 7 employees.
- Medical offices: 1,954 SF of medical offices to serve 10 to 15 clients per day; estimated 5-7 employees.
- Café: 1,551 SF restaurant kitchen and seating area.

**Transitional Housing.** The six upstairs guest rooms in the main Oak Street wing of the hotel will be reconfigured into at least two living units to provide a total of five bedrooms for transitional housing clients, as described in the CDBG grant application. Note that the term "unit" as used in the grant application relates to the funding that MCHC receives for Transitional Housing. MCHC receives funding from Mendocino County's Supportive Housing Program (SHP) through the County's HUD Continuum of Care applications. For the purpose of SHP Transitional Housing, a "unit" is generally a bedroom containing up to two beds (for up to two adults or a family) in a housing unit. A housing unit may be in "in one structure or several structures, at one site or in multiple structures at scattered sites."<sup>1</sup> Each guest room at the Old Coast Hotel is fully modernized, including in-room bathrooms, sinks and closets. Reconfiguration would include installation of kitchen fixtures and equipment.

**Manager's apartment.** One upstairs suite which is accessed through the interior courtyard would become an on-site manager housing unit to provide additional facility security and housing client support after regular business hours.

**Administrative and counseling space.** Up to six former guest rooms comprising approximately 3,319 square feet would house MCHC administrative offices as well as MCHC counseling and case management offices.

**Wellness Center.** Approximately 1,668 SF located in the former restaurant lobby and seating area would provide community space for the Wellness Center, where group meetings and a variety of life skills activities will be offered in a peer-supported environment.

**Medical offices.** The existing private offices accessed from Oak Street would house the Mental Health Access Center. The Access Center will be operated by Integrated Care Management Solution (iCMS), a subcontractor of County Mental Health contractor Ortnier

---

<sup>1</sup> Homeless Assistance Programs Supportive Housing Program Desk Guide, HUD 2008, page 26, <https://www.hudexchange.info/resources/documents/shpdeskguide.pdf>

Management Group. The Oak Street offices provide private entry, separate restroom, reception space, and two large rooms plus storage space that can be reconfigured as needed to provide private conference and respite space. In addition, iCMS has requested use of up to three former guest rooms in the alley wing of the hotel for additional conference and respite space. The Access Center is currently housed in the center unit of a three-unit strip mall that fronts Main Street just south of the Main and Chestnut Street intersection, offering little privacy to clients. The Old Coast Hotel location would provide a high-quality, private setting for Access Center clients, and is within close proximity of MCHC case workers and employees. This would provide an important element of added security and close-at-hand assistance for clients and employees of the Access Center.

**Café:** The former Old Coast Hotel bar and bar seating area will provide space for future MCHC activities including a culinary employment training program and retail café. All existing commercial kitchen equipment is included in the selling price of the facility. The large commercial kitchen was fully rehabilitated in 1996/1997 and provides modern equipment and ample space for culinary training. The space will not be operated as a “soup kitchen” but instead will enable local residents to visit a café in the historic building, and will provide job and life skills training to clients of the Wellness Center and Access Center, thereby helping homeless individuals and persons with mental illness achieve economic and social stability.

In addition to the above interior space, the Old Coast Hotel provides a large, private outdoor courtyard that offers a convenient and safe facility entry point and covered waiting and respite areas. In addition, the courtyard has several raised garden beds and a former planting area that serviced the restaurant, which could be used for the MCHC vocational garden program.

It is important to note that MCHC currently provides all of its administrative, counseling, case management and Wellness Center activities from two rental units located at 468 So. Franklin Street. The current offices provide a total of 1,970 SF of space in a busy retail strip mall. To minimize concerns of neighboring businesses in the strip mall, MCHC clients enter the current offices through the largely unpaved rear alley, and there is no indoor waiting area available for clients (see Attachment 3 for photos of the current MCHC offices and alley entry). The current Mental Health Access Center, located at 544-B So. Main Street, was originally co-located with MCHC in the cramped Franklin Street space, but was relocated due to privacy concerns for both MCHC and Access Center clients. The Old Coast Hotel will provide an indoor waiting area and an enclosed private outdoor waiting area. Ample, flexible group and/or private spaces will allow MCHC to provide the variety of services described above in an appropriate setting that does not compromise dignity or stigmatize MCHC’s clients. Co-locating MCHC services with the Mental Health Access Center will accomplish the goal of increasing safety, security, and ease of access for clients while still maintaining adequate separation to ensure client privacy. Additionally, co-location of the services will result in more effective service provision to the client population, which is intended to result in a more stable, well-served and eventually smaller homeless population.

## **B. Acquisition cost and estimated rehabilitation needs.**

The total amount of the grant from CDBG to the City for this project is \$1,162,791. The current owners of the Old Coast Hotel, Thomas and Nina Atraz Carine, have entered into a Purchase Option with MCHC to sell the property for \$900,000. This leaves \$262,791 in grant funding available for closing costs (excluding commissions to be paid by seller) and for rehabilitation design and construction, including construction management and labor standards supervision. Due to the building’s major rehabilitation in 1996/1997, the facility is in excellent condition. Rehabilitation is expected to include the following, subject to available funding:

- Reconfiguration and kitchen installations to create the transitional housing units described above.

- Automated fire sprinkler installation in the alley wing and Oak Street wing offices and former guest rooms (excluding the restaurant, bar and Franklin Street second story rooms that are already sprinkled).
- Removal of a metal roll-up delivery door fronting Oak Street.
- Installation of privacy doors between the lobby and adjoining rooms.
- Removal of non-permanent installations such as hostess center; and installation of non-permanent partitioning as needed to create private spaces in larger rooms.
- Office-related improvements including installation and expansion of Ethernet, installation of key-pad locks, and installation of security cameras.
- General exterior painting and canopy repairs to match existing colors.

Top priorities, after installation of fire sprinklers, would be to bring the property to a configuration and status usable for all of the proposed uses so that the public benefit as described in the grant application may be achieved.

### **C. Project background.**

The homeless services facility activity was proposed for the 2014 CDBG grant application by Mendocino Coast Hospitality Center (MCHC) at a CDBG Design Phase Public Hearing held on January 7, 2014. The CDBG Design Phase Public Hearing is one of two required public hearings required to be held prior to the City's submission of a CDBG grant application. The MCHC proposal was to purchase and rehabilitate a vacant property located at 300 North Harrison Street, in which to co-locate various homeless and mental health services, a mental health access center, and MCHC administrative offices, and to establish five units (bedrooms) of transitional housing. On February 24, 2014, the City Council directed staff to submit a 2014 CDBG application to include the homeless services facility activity, as well as other activities, for a total application of \$2 million. The City then held the second of the two CDBG-required public hearings on March 24, 2014, during which the City Council adopted a Resolution authorizing submittal of a \$2 million 2014 CDBG application for five activities, including up to \$1,162,791 for the MCHC homeless facility acquisition and rehabilitation project.

On May 13, 2014, City staff was notified by MCHC that the seller of 300 No. Harrison had pulled out of the Purchase Option that defined the terms of the sale to MCHC. MCHC started a new search for a property that would offer comparable attributes to the 300 No. Harrison site, as described in the CDBG application. In reviewing alternative locations, MCHC considered factors including adequate square footage and configuration to accommodate needs as described in the grant application; acquisition and estimated rehabilitation costs within the grant budget; presence of residential and/or commercial occupants and associated mandatory relocation costs; permitted uses to include both residential and commercial/office uses; and parking requirements. In addition, MCHC attempted to balance client rights and needs while also addressing the 300 No. Harrison Street neighbors' recommendation to avoid residential areas; and while also considering impacts on prime tourism corridors and neighboring businesses.

On October 7, 2014, the City was notified that the \$2 million CDBG grant was awarded, including the use of grant funds for homeless facility activity. With the grant award announced, City staff conferred with CDBG staff regarding the need to find a new location for the homeless facility (no communication with CDBG staff is permitted during the application review process, per the CDBG

2014 Notice of Funding Availability<sup>2</sup>). CDBG confirmed that a location substitution is allowable if services, beneficiaries and location (that is, a location within City limits that affords comparable and suitable access by beneficiaries) are comparable to those described in the grant application. CDBG advised City staff that a request for site substitution should be submitted as part of “site control” documentation required for the grant General Conditions clearance process. The General Conditions may be cleared by CDBG after the grant agreement is fully executed and submitted to CDBG along with other General Conditions documentation.

In late October, the Old Coast Hotel realtor contacted the MCHC realtor with a proposal from the Old Coast Hotel owners to sell the property located at 101 No. Franklin Street to MCHC at a significant discount. The Old Coast Hotel realtor offered the property to MCHC at price of \$900,000, which is the same as the selling price of the original 300 No. Harrison Street location, as was included in the 2014 CDBG grant application. The offer represents a significant discount from the most recent “list price” for the Old Coast Hotel property of \$2,995,000<sup>3</sup>. Due to the 1996/1997 reconstruction and rehabilitation of the property, current rehabilitation and reconfiguration needs and costs at the Old Coast Hotel are relatively minor, and available grant funding is adequate to fund the purchase and rehabilitation. In addition, the property is vacant, so there are no relocation costs associated with a purchase, and there are no existing employees at the Old Coast Hotel that would lose jobs due to the transaction.

On December 1, 2014, MCHC entered into a Purchase Option with the owners of the Old Coast Hotel, as required to document “site control” for CDBG purposes. On January 12, 2015, the City Council adopted a Resolution approving use of awarded 2014 CDBG grant funds at the substituted Old Coast Hotel location. On March 12, 2015, the parties to the Purchase Option agreed to extend the option as needed to accommodate the City’s extended approval process.

As one of the Special Conditions required per the City’s 2014 grant agreement with CDBG, the City must enter into a loan agreement with MCHC to bind MCHC to at least the minimum use restriction required by CDBG. CDBG’s standard use restriction clause requires no change of use for a minimum of five years after expiration of the standard agreement. The use restriction must be recorded in the County Recorder’s office. In addition, the loan agreement must include performance requirements and associated sanctions if performance criteria are not met. Details of components of the loan agreement are provided below.

#### **D. Old Coast Hotel History**

The Old Coast Hotel is a lovely, stately building located on the northwest corner of Oak and Franklin Streets. The north side of Oak Street represents the southernmost border of the Central Business District. As described in a Records Search Result received from the Northwest Information Center of the California Historical Resources Information System on February 16, 2015 (Attachment 4), the precise construction date of the Old Coast Hotel building is uncertain as there have been various structures located at the 101 No. Franklin Street site since 1894, per Sanborn Insurance Maps. The 1898 Sanborn Map depicts five separate structures, one of which is labeled “Italian Boarding House” and another “Female Boarding.” The 1919 Sanborn Map shows the main building fronting Franklin Street as “boarding.” By 1941, the Sanborn Map shows the Franklin Street portion of the building has been connected to the structures along Oak Street and along the rear alley to result in the current building configuration, although the height and uses of the various

---

<sup>2</sup> Per 2014 CDBG Notice of Funding Availability, Section 13 – Award Announcements, page 69 of 71, [http://www.hcd.ca.gov/fa/cdbg/docs/2014\\_NOFAs/2014\\_CDBG\\_NOFA-Final\\_v3\\_Updated\\_3\\_27\\_2014.pdf](http://www.hcd.ca.gov/fa/cdbg/docs/2014_NOFAs/2014_CDBG_NOFA-Final_v3_Updated_3_27_2014.pdf)

<sup>3</sup> [http://www.loopnet.com/California/Fort-Bragg\\_Hotels-Motels-For-Sale/](http://www.loopnet.com/California/Fort-Bragg_Hotels-Motels-For-Sale/), listing ID 17514023, March 27, 2015.

portions of the buildings is uncertain. Per the 1941 map, the structure along Franklin Street is labeled “The Coast Hotel.”

Per City records, the Old Coast Hotel last generated Transient Occupancy Tax in late 2010, and its last recorded sales tax was in the quarter ended on September 30, 2008. The building has been largely vacant and out of use, except that the office space accessible from a separate Oak Street entry (approximately 700 SF of the over 12,000 SF building) was occupied by a small non-profit tenant until recently, when that tenant voluntarily relocated. The Old Coast Hotel was the subject of two business loans, one in 1988 and one in 1989 that were funded by CDBG Economic Development grants to the City. A total of \$311,000 was advanced to the then-owner for debt refinancing, rehabilitation, and working capital, with a goal of job retention and expansion. Unfortunately, the hotel, restaurant and bar failed to generate enough profit to sustain the business, and in April 1995, City Council instigated foreclosure proceedings due to non-performance on the loan. In November 1995, City Council authorized sale of the property to the current owner and the loan was repaid in full.

In 1996/1997, the property was substantially rehabilitated and modernized by the current owners, with careful attention to restoration of existing historic details, and installation of additional, “period” historical attributes. Rehabilitation included:

- significant dry rot repair;
- addition of a foundation to the entire structure and addition of second story to add four guest rooms in the alley wing;
- installation of new commercial kitchen fixtures and equipment;
- electrical and plumbing upgrades including installation of fire sprinklers in the restaurant, bar, and six rooms in the Franklin Street wing;
- installation of ADA accessible restrooms in the restaurant, bar, and conversion of one downstairs guest room in the alley wing to full ADA accessibility;
- upgrades to furnishings and fixtures in all guest rooms;
- installation of a new full bar including wood counter, mirror, and amenities;
- repair and replacement of ornate tin roofs and walls in the main Franklin Street wing;
- canopy installation, and
- construction of an enclosed patio area.

The major rehabilitation in 1996/1997 brought the entire facility up to then-current Uniform Building Code standards, including standards for hotel sound proofing (see more information about sound proofing in the “Response to Community Concerns – Privacy Concerns” discussion below). The 1996/1997 rehabilitation also included repainting of the entire facility, inside and out, which abated any lead based paint hazards by either removing or encapsulating existing coatings. Per 1996/1997 project architect Robert Schlosser of Schlosser Newberger Architects, the Mendocino County Building Inspector required abatement of all hazards including lead based paint as a condition of occupancy,

## **E. Content of Loan Documents**

The draft loan documents (Attachment 2) are comprised of the Loan Agreement and six Exhibits, including the Note Secured by Deed of Trust, Deed of Trust, Truth-in-Lending Disclosure, Notice of Right to Cancel, and a Restrictive Covenant stating the 20-year use restriction. The Loan Agreement includes the following elements:

1. **Recitals.** These identify the subject property as the Old Coast Hotel; explain that the CDBG Program is the source of the loan funding and that funds were provided as a grant to the City; and describe the purpose of the loan as described in the CDBG grant application.
2. **Definitions.** This section explains and clarifies specific terms and terminology as used in the loan documents.
3. **Loan of Funds.** This section describes the loan amount and terms of disbursement including:
  - **Loan Amount:** The loan amount of \$1,162,791 represents the entire grant award to the City for the homeless services facility activity and is the maximum amount that could be disbursed to MCHC for purchase and rehabilitation of the Old Coast Hotel.
  - **Interest:** No interest will be charged or accumulated on the loan amount.
  - **Term:** The loan term is 20 years.
  - **Required Documentation:** The related documentation that must be executed prior to disbursement of funds is listed, including Exhibits to the Loan Agreement (Deed of Trust, Regulatory Agreement, Truth-In-Lending Disclosure, and Notice of Right to Cancel).
  - **Disbursement of Funds:** Funds for purchase of the property (\$900,000) will be distributed directly to the Escrow Account to be established for the purchase transaction. Note that CDBG funds will not be available to the City until all grant special and general conditions are cleared by CDBG. Funds for property rehabilitation will be released directly to vendors and contractors by the City. If the acquisition and rehabilitation activity requires less than the maximum loan amount, any amounts less than the maximum loan amount will be considered partial repayment of the loan.
4. **Repayment of the City Loan.** This section describes circumstances or “Triggering Events” that would cause repayment of the loan by MCHC, including the following:
  - Any Transfer of the Property without the City’s prior written consent. The term “Transfer” is defined in the Definitions section of the Loan Agreement as “any voluntary or involuntary sale, lease, rental, conveyance, bequest, devise, inheritance, or other transfer of title or any interest in to the Property, including a transfer to an inter vivos trust.”
  - Change of use such that MCHC stops using the Old Coast Hotel to provide services to homeless and mentally ill individuals as described in the 2014 CDBG grant application. Those services are described in the grant application as case management, resource center, and other services for homeless and mentally ill individuals, as well as at least five rooms (10 beds) of Transitional Housing. MCHC is subject to the use description for the 20 year term of the loan. The use description is also stated in the Restrictive Covenant to be recorded in the County Recorder’s office.
  - Failure to maintain the Old Coast Hotel as acquired, and specifically to “protect and preserve specialized restored or replicated historical attributes.”
  - Failure to maintain rehabilitated aspects of the property at post-rehabilitation condition.
  - Default of the Loan Agreement, including misrepresentations made by MCHC, failure to perform obligations contained in the Loan Agreement, or failure to notify the City if a “Triggering Event” occurs.

- Failure to maintain property insurance with City as loss payee.
- Failure to pay any property taxes due.

If such a Triggering Event occurs, the City may determine the repayment terms, with discretion to allow monthly payments rather than a lump sum payment.

5. **CDBG Program Requirements.** This section requires conformity with HUD and CDBG regulations and provides that rehabilitation activities may proceed only with City approval and participation. In addition, this section contains Covenants regarding the property transfer restrictions, property maintenance requirements, prohibition against discrimination, the City's right to inspect the property, and the requirement to maintain adequate property insurance.
6. **Defaults and Enforcement.** This section describes "events of defaults", including those described in Item 4 above, and also states that if a default occurs, the City may declare the full loan amount due and payable. Liquidated damages are provided in the event of rent or lease of the property without City consent. Specific Performance is also required in this section, because the CDBG project serves a public purpose of a "special and unique kind."
7. **Subordination.** This section provides that the City may approve loan subordination at its discretion, but there are restrictions stated on terms of any new loan.
8. **General Provisions.** This section contains standard loan provisions that are not unique to this transaction except to identify Notice Addresses and signers.

## II. GENERAL PLAN AND ZONING CONSISTENCY ANALYSIS

### A. General Plan Consistency Analysis

The proposed reuse of the Old Coast Hotel is consistent with the policies of the 2014 Housing Element of the Inland General Plan and the 2012 Inland General Plan as shown in Table 2 below.

**Table 2: Consistency with 2012 Inland General Plan**

| Policies of 2014 Inland Housing Element  | Compliance Analysis  | Compliance |
|--|--|------------|
| Policy H-3.1 Available Funding Sources: Utilize County, State and Federal programs and other funding sources that provide housing opportunities for lower-income and special needs households.   | The proposed project utilizes federal and state funding sources to provide transitional housing to special needs households. | Yes        |
| Policy H-3.9 Emergency and Transitional Housing: Continue to support emergency shelters, transitional housing and supportive housing within the City.  | The proposed project includes Transitional Housing.  | Yes        |
| Program H-3.9.3 Transitional and Supportive Housing: Continue to regulate transitional and supportive housing as a residential use subject to the same restrictions that apply to other residential use types and dwellings of the same type in the same zone. | The proposed project, if approved, would be subject to the same restrictions that apply to any mixed-use project.            | Yes        |



| <b>Policies of the 2012 Inland General Plan</b>  | <b>Compliance Analysis</b>  |     |
|--|---|-----|
| Policy LU-3.1 Central Business District: Retain and enhance the small-scale, pedestrian-friendly, and historic character of the Central Business District (CBD).   | The proposed project would include the future operation of a café, which is a pedestrian-oriented use of the franklin street frontage of the project.   | Yes |
| Policy LU-3.2 Mixed Uses: Support mixed use development (i.e., a combination of residential and commercial uses) in the Central Business District that does not conflict with the primary retail function of this area.  | The proposed project is a mixed-use project that includes a café and so would not conflict with the retail function of the area.  | Yes |
| Policy LU-3.3 Historic Buildings and Mixed Uses: In the Central Business District and in other commercial areas with historic residential structures, encourage residential uses, mixed residential, and commercial uses, and the preservation of historic structures.   | The proposed project would reuse a historic building that has stood vacant for five years and includes a mixed use reuse of the facility.   | Yes |
| Policy LU-3.6 Re-Use of Existing Buildings: Encourage the adaptive re-use and more complete utilization of buildings in the Central Business District and other commercial districts.  | The proposed project would be located in a historic building that has stood vacant for five years. Additionally, it would include reuse of the entire building for commercial, non-profit and residential uses.                               | Yes |
| Policy CD-2.1 Adaptive Reuse: Facilitate the adaptive reuse of existing older buildings in the Central Business District.  | The proposed project consists of adaptive reuse of an older hotel and restaurant into a mixed-use residential, retail and office project.   | Yes |
| <p>Policy CD-6.1 Protect and Preserve Buildings and Sites with Historic and Cultural Significance to the Community:</p> <p>Program CD-6.1.3: Establish incentives for the preservation and restoration of historic buildings and sites. Consider the following incentives: low interest loans for rehabilitation consistent with the original character of historic buildings, tax incentives for the preservation of historic structures, including the use of Mills Act preservation contracts, and awards or grants for the preservation and protection of historic buildings and those with cultural significance.</p> | The proposed project would include a forgivable loan to complete rehabilitation of portions of the facility consistent with the historic character of the building.   | Yes |
| Policy S-1.1 Building Reuse: Where existing buildings are structurally sound and reuse is economically feasible, reuse of buildings in whole or part is preferred.   | The proposed project would include reuse of a structurally sound facility. Over the past five years the building has been largely unleased and underutilized as a hotel. It appears that the proposed project would be economically feasible. | Yes |

## **B. Zoning Consistency Analysis**

Each component of the proposed project has been analyzed to determine compliance with the City's Inland Land Use and Development Code (ILUDC) also known as the City's Zoning Code.

The project is located in the Central Business District (CBD), the purpose of which is defined in ILUDC Section 18.22.020 as:

“The CBD zoning district is applied to the core of the downtown which is the civic, cultural, and commercial center of the City. The CBD zone is intended to accommodate retail stores, government and professional offices, theaters, and other similar and related uses in the context of pedestrian-oriented development. The maximum allowable residential density in the CBD zone for the residential component of a mixed use project is 40 dwelling units per acre; the maximum floor area ratio is 2.0.”

**Transitional Housing.** MCHC proposes to remodel six hotel rooms on the second floor of the Old Coast Hotel into two dwelling units, one with three bedrooms and the other with two bedrooms, that will be used for transitional housing. Transitional housing is not an “emergency/transitional shelter” which is defined in the ILUDC as “[a] facility for the temporary shelter and feeding of indigents or disaster victims, operated by a public or non-profit agency.” Instead, transitional housing provides long-term housing and appropriate supportive services to homeless persons to facilitate movement from homelessness to independent living. As stated in California Government Code Section 65583(a)(5):

“Transitional housing and supportive housing shall be considered a residential use of property, and shall be subject only to those restrictions that apply to other residential dwellings of the same type in the same zone.”

In 2012, following adoption of the 2009 General Plan Housing Element Update and pursuant to a requirement by the State Department of Housing and Community Development (the State agency responsible for certifying that General Plan Housing Elements comply with State planning laws), the City amended the ILUDC to remove the use type of “transitional housing.” The use type was removed to reflect the fact that transitional housing cannot be regulated differently from comparable residential use types, and must be regulated according to its status as multi-family, single-family, or mixed-use development.

Pursuant to California Government Code section 65583(a)(5), transitional housing is considered residential housing, and it “shall be subject only to those restrictions that apply to other residential dwellings of the same type in the same zone.” Thus, MCHC’s proposed transitional housing units at the Old Coast Hotel must be treated as a “residential component of a mixed-use project”, which is the residential use type permitted in this zone and in this building type. As a permitted use within the Central Business District (CBD) zoning designation per ILUDC Section 18.22.030, Table 2-6, the “residential component of the mixed use project” is only permitted on second or upper floors. The proposed residential units at the Old Coast Hotel (transitional housing and manager’s apartment) would be located on the second floor in compliance with this regulation.

**Mixed Use Projects.** ILUDC Section 18.100.020 defines a mixed use project as “[a] project that combines both commercial and residential uses, where the residential component is typically located above the commercial.” The ILUDC specifically permits mixed use projects in the CBD without a Use Permit. Additionally, Section 18.42.100 establishes specific standards for mixed use projects in the CBD. The project’s compliance with these requirements is analyzed in Table 1 below:

**Table 1: Consistency with ILUDC Section 18.42.100 (Mixed Use Projects)**

| Code Section   | Project Description   | Complies? |
|--|---|-----------|
| A1. The design shall provide for internal compatibility between the residential and non- | The proposed residential units would be located upstairs, with access provided via a downstairs | Yes       |

| Code Section  | Project Description   | Complies? |
|---|---|-----------|
| residential uses on the site.   | lobby which provides a separate external entrance from the commercial components of the project   |           |
| <b>A2. Potential glare, noise, odors, traffic, and other potential nuisance conditions for residents shall be minimized to allow a compatible mix of residential and nonresidential uses on the same site.</b>  | The upstairs residential units would be exposed to the same level of glare, noise, traffic and other potential nuisance conditions as other residential uses on the block and in the Central Business District. The door which separates the uses from the proposed future café will minimize potential odors therefrom.  | Yes       |
| <b>A3. The design shall take into consideration existing and potential future uses on adjacent properties and shall include specific design features to minimize potential impacts.</b>   | Adjacent properties include a multi-family residential building to the north and an office building to the west. Design features that minimize potential impacts, include: 1) separate entrance and lobby for residential uses; 2) separate entrance at the south side of the building for medical services uses; 3) a café on the Franklin Street frontage will provide an active pedestrian-oriented use for the project. | Yes       |
| <b>A4. The design shall ensure that the residential units are of a residential character, and that appropriate privacy between residential units and other uses on the site is provided.</b>  | Each residential unit would have a separate entrance from the hall way, the units are separated from each other by a stairwell. The kitchens of each unit provide the only adjoining wall thereby minimizing sound infiltration between units. The residential component of the project includes a separate entrance from Franklin Street.  | Yes       |
| <b>A5. Site planning and building design shall provide for convenient pedestrian access from the public street into the nonresidential portions of the project, through such means as courtyards, plazas, walkways, and street furniture.</b>   | Pedestrian access would be provided from the street to the future café through the main doors on Franklin Street. Access to the medical offices would be from both the street and the alley, and access to the wellness center would be provided from the street and the alley through a courtyard.   | Yes       |
| <b>6. Site planning and building design shall be compatible with and enhance the adjacent and surrounding residential neighborhood in terms of building design, color, exterior materials, landscaping, lighting, roof styles, scale, and signage.</b>  | The building is a historic structure and recognized throughout the community as an asset to the Central Business District in terms of the building design, color, exterior materials, landscaping, lighting, roof styles and scale. Signage will have to comply with the City's sign code.  | Yes       |
| <b>B. Mix of uses. A mixed use project may combine residential uses with any other use allowed in the applicable zoning district where allowed by Article 2 (Zoning Districts and Allowable Land Uses); provided, that where a mixed use project is proposed with a use that is required to have Minor Use Permit or Use Permit approval in the applicable zoning district, the entire mixed use project shall be subject to that permit requirement.</b> | All proposed uses in the project are permitted by right in the CBD. No Use Permit or Minor Use Permit is necessary.   | Yes       |

| Code Section   | Project Description   | Complies? |
|--|---|-----------|
| <b>C. Maximum density. The residential component of a mixed use project shall comply with the density requirements of the applicable General Plan designation and zoning district.</b>   | The maximum density of residential units in the CBD is 40 units per acre. With 3 units this project is below the maximum density.   | Yes       |
| <b>D1.Location of units. Residential units shall not occupy ground floor street frontage on the primary street frontage. Residential units are allowed on the first floor of alleys and secondary street frontages. The ground floor street frontage space within a mixed use building shall be reserved for commercial uses, except for a lobby or other feature providing access to residential units.</b> | The proposed project includes residential units on the second story only. The ground floor street frontage will be used for a café, offices, and the wellness center, except for the lobby that provides access to the residential units. All of these ground floor commercial uses are permitted in the CBD. | Yes       |
| <b>D2. Parking. In order to encourage the development of residential uses in existing and new commercial areas, the use of shared parking provisions shall be incorporated into mixed use projects in compliance with Section 18.36.080 (Reduction of Parking Requirements).</b>   | Please see parking in lieu fee discussion below   | Yes       |
| <b>D3.Loading areas. Commercial loading areas shall be located away from residential units and shall be screened from view from the residential portion of the project to the maximum extent feasible.</b>   | The proposed use does not require loading areas, and this section of the code is not applicable to the project.   | Yes       |
| <b>D4.Refuse and recycling areas. Areas for the collection and storage of refuse and recyclable materials shall be located on the site in locations that are convenient for both the residential and nonresidential uses.</b>  | The proposed project would be required to provide recycling and refuse storage areas in compliance with this provision when a building permit is pulled for the rehabilitation work.  | Yes       |
| <b>E1.Lighting. Lighting for commercial uses shall be appropriately shielded to limit impacts on the residential units.</b>  | The proposed project does not include commercial night lighting.  | Yes       |
| <b>E2.Noise. Each residential unit shall be designed and constructed to minimize nonresidential project noise levels, in compliance with the City's Noise Ordinance. Night-time commercial uses shall minimize noise levels, in compliance with the City's Noise Ordinance.</b>  | The project does not include nighttime commercial noises.   | Yes       |

**Café.** A small café is proposed for the southeast portion of the building (where the bar and bar seating area is currently located). The proposed café is a pedestrian-oriented use that would be accessed from Franklin Street and is consistent with the ILUDC's provisions that pedestrian-oriented uses be located on the ground floor of mixed-use buildings within the CBD (see Section 18.22.060B(1)). Pursuant to ILUDC Section 18.22.030 Table 2-6, a café is a permitted use within the Central Business District (CBD).

**Social Service Organization** is defined in the zoning ordinance as “a public or quasi-public establishment providing social and/or rehabilitation services, serving persons with social or personal problems requiring special services, the handicapped, and the otherwise disadvantaged.

Examples of this land use include: counseling centers, welfare offices, job counseling and training centers, or vocational rehabilitation agencies. Includes organizations soliciting funds to be used directly for these and related services, and establishments engaged in community improvement and neighborhood development.”

The MCHC proposes to provide: 1) counseling (individual, group); 2) assistance for clients in developing life skills (yoga, meditation, tai chi, money management, interview skills, home budgeting, etc.); and 3) administrative offices at the proposed location and is clearly a Social Service Organization. Pursuant to ILUDC Section 18.22.030 Table 2-6, Social Service Organization is a permitted use within the CBD. Additionally, this use is appropriate in the upstairs and ground floor of a mixed-use building (see Section 18.22.060B.1).

**Doctor's Office.** The Access Center mental health services would be provided by licensed clinicians and doctors and are classified as Medical Services – Doctors Office, which is a permitted use within the Central Business District CBD Section 18.22.030 Table 2-6.

### **Design Review**

As the project only involves minor interior modifications to the structure, a Design Review Permit is not required.

### **Parking**

The proposed uses would be located in an existing building in the CBD. ILUDC Section 18.36.080(3), permits operators of projects within the CBD to pay a parking in-lieu fee rather than provide parking on site:

**3. Parking in-lieu fee.** Parking requirements in the CBD Special Parking Combining Zone may be waived at the discretion of the approval authority, if the owner of the subject property pays a parking in-lieu fee to the City in compliance with this Subparagraph.

- a. In lieu of providing the off-street parking spaces required by this Subsection, these requirements may be satisfied by the payment to the City of an in-lieu parking fee established by the Council and identified in the City's Fee Schedule for both the use of existing structures and for new structures for each required off-street parking space which is not provided.
- b. Parking in-lieu fees may be authorized in the CBD Special Parking Combining Zone for changes of use or projects for which provision of sufficient parking on site is not possible. Parking in-lieu fees are discouraged for changes of use or new development that can accommodate required parking on site. The funds shall be deposited with the City in a special fund and shall be used and expended for the purpose of acquiring and developing off-street parking facilities located insofar as reasonable in the general vicinity of the structures for which in-lieu payments were made as well as for meeting parking needs through strategies to reduce parking demand or to improve access to parking.

In 2012, the City Council established a temporary waiver on the payment of Parking in Lieu Fees to encourage the reuse of existing vacant buildings in downtown (October 22, 2012, Resolution No. 3576-2012). The waiver expired on December 31, 2014, but was reinstated for another two-year period earlier this year (February 9, 2015, Resolution No. 3780-2015). The proposed reuse of the Old Coast Hotel may thus proceed without paying Parking in Lieu Fees or providing additional on-site parking, so long as the occupancy is established prior to December 31, 2016. It should be noted that MCHC has received written permission to use up to four parking spaces available at 138 East Oak Street (also known as The Oaks), a multi-family residential structure that has an under-utilized parking lot as most residents do not own vehicles.

### III. ENVIRONMENTAL DETERMINATIONS

CDBG activities are subject to environmental review under federal and state regulations. CDBG requires that grant recipients prepare and maintain a written record of the environmental review undertaken for each project. Grantees must complete federal environmental review per the National Environmental Policy Act (NEPA) as part of the process of clearing grant General Conditions. CDBG does not monitor State environmental compliance under the California Environmental Quality Act (CEQA). Jurisdictions must conduct environmental review under CEQA according to state and local regulations. Different determinations, processes and timelines apply to NEPA and CEQA as described below.

#### A. Federal environmental compliance to clear General Conditions for the Homeless Facility Acquisition and Rehabilitation Activity per the National Environmental Policy Act (NEPA).

Rules and regulations that govern the CDBG NEPA environmental review process are cited in Title 24 of the Code of Federal Regulations (CFR), Part 58, Subparts A through H. Specific guidance for State CDBG-funded activities is provided in Chapter 3 “Environmental Review Compliance” of the CDBG Grant Management Manual (GMM)<sup>4</sup> as updated March 2015. Per this chapter, CDBG recognizes four NEPA environmental classifications: Exempt Activities; Categorically Excluded Activities; Activities Requiring an Environment Assessment; or Activities Requiring an Environmental Impact Statement. Determining the appropriate classification is the responsibility of the grantee jurisdiction. CDBG provides extensive guidance for classifying typical CDBG activities, including recommendations for NEPA classification of public facility acquisitions and minor rehabilitations such as the proposed homeless facility purchase and rehabilitation.

CDBG has determined that the homeless services facility is a public facility even though it provides transitional housing, and that is the category under which this activity is funded in the Standard Agreement. An explanation for this categorization is provided in Chapter 2, *Categories of Eligible Activities*, of the HUD *Guide to National Objectives and Eligible Activities for State CDBG Programs*,<sup>5</sup> as follows:

“Neither the HCD nor the regulations define the terms “public facilities” or “public improvements. However, in the CDBG program, these terms are broadly interpreted to include all improvements and facilities that are either publicly owned or that are traditionally provided by the government, or owned by a nonprofit, and operated so as to be open to the general public. [...] The Entitlement program regulations specify that facilities that are designed for use in providing shelter for persons having special needs are considered to be public facilities (and not permanent housing), and thus are covered under this category of basic eligibility. Such shelters would include nursing homes, convalescent homes, hospitals, shelters for victims of domestic violence, shelters and transitional facilities/housing for the homeless, itinerant farm workers, group homes for the developmentally disabled, and shelters for disaster victims...”

---

<sup>4</sup> The most recent CDBG Grant Management manual including Chapter 3 is available at the State CDBG website <http://www.hcd.ca.gov/fa/cdbg/manual/>.

<sup>5</sup> HUD Guide to National Objectives and Eligible Activities for State CDBG Programs, Chapter 2, Categories of Eligible Activities, page 2-11, [https://portal.hud.gov/hudportal/documents/huddoc?id=DOC\\_17133.pdf](https://portal.hud.gov/hudportal/documents/huddoc?id=DOC_17133.pdf).

On page 11 of Grant Management Manual Chapter 3, CDBG recommends that acquisition and minor rehabilitation of a non-residential structure (public facility) should be considered “Categorically Excluded from NEPA Subject to Part 58.5.” Under this classification, no Environmental Impact Statement or Environmental Assessment is required except under extraordinary circumstances as defined in 24 CFR Part 58.2(a)(3). Exempt activities are subject to 24 CFR Part 58.5, which requires further review of specific compliance factors and HUD Environmental Standards. Further analysis under the 24 CFR Part 58.5 may result in a determination that an Environmental Assessment is necessary.

Per CDBG, an Environmental Assessment typically would be appropriate for CDBG-funded activities that include the following<sup>6</sup>:

- New construction or rehabilitation of public facilities or improvements involving a new facility or system, or increasing the size or capacity of an existing facility or system by more than 20 percent.
- Infrastructure activities in support of a new construction project.
- An individual action (new construction, demolition or acquisition) on a project of 5 or more units when the units are located within 2,000 feet of each other.

Extraordinary Circumstances under 24 CFR Part 58.2(a)(3) that would require preparation of an Environmental Impact Study (EIS) are described in 24 CFR 58.37 as follows<sup>7</sup>:

- (i) Actions that are unique or without precedent;
- (ii) Actions that are substantially similar to those that normally require an EIS;
- (iii) Actions that are likely to alter existing HUD policy or HUD mandates; or
- (iv) Actions that, due to unusual physical conditions on the site or in the vicinity, have the potential for a significant impact on the environment or in which the environment could have a significant impact on users of the facility.

Per CDBG Chapter 3 page 15, an EIS would be appropriate for activities that have “potentially significant impact” which would involve projects that incorporate “significant development, regional impact, long-term effects on the environment, violation of existing laws and authorities, or highly controversial development where, in each case, procedural resolution is not feasible.” The following findings address whether an Environmental Assessment or EIS is required for this project under NEPA:

1. **Finding:** An Environmental Assessment is not appropriate for the project because it does not include: 1) new construction or rehabilitation of public facilities; 2) improvements increasing the size or capacity of an existing facility by more than 20 percent; 3) nor infrastructure activities in support of a new construction project. Additionally, the proposed project would result in the acquisition of three housing units, which is less than the five+ unit threshold that would require an Environmental Assessment.
2. **Finding:** An EIS is not required because the project is not: 1) a unique action or without precedent; 2) an action that is substantially similar to those that normally require an EIS; or 3) likely to alter existing HUD policy or HUD mandates. Finally the project site does not have unusual physical conditions that have the potential for a significant impact on the environment

---

<sup>6</sup> CDBG Grant Management Manual, Chapter 3, page 14, March 2015.

<sup>7</sup> Cornell University Law School, Legal Information Institute, Title 24 › Subtitle A › Part 58 › Subpart D › Section 58.37 <https://www.law.cornell.edu/cfr/text/24/58.37>

or in which the environment could have a significant impact on users of the facility. A traffic study (see Attachment 6) was completed for the project and found that the project would not have a significant impact on traffic conditions. Likewise staff completed an initial study and found no potential for significant impacts in any other category (e.g. noise, natural resources, utilities, etc.)

With CDBG guidance and after consideration of the applicable Federal regulations, staff determined the acquisition and rehabilitation activity to be Categorically Excluded per 24 CFR 58.35(a)(3)(iii), "Rehabilitation of...non-residential structures, including commercial, industrial, and public buildings...where (A) The facilities and improvements are in place and will not be changed in size or capacity by more than 20 percent; and (B) The activity does not involve a change in land use, such as from non-residential to residential, commercial to industrial, or from one industrial use to another." The following findings address the project's categorical exemption under 24 CFR 58.35(a)(3)(iii)A:

**Finding:** The project consists of: 1) the rehabilitation of a non-residential mixed-use structure composed of restaurant, office and hotel uses in a commercial building; 2) the facilities will not be changed in size or capacity by more than 20 percent; and 3) the activity does not involve a change in land use from commercial to industrial, or from one industrial use to another. The project includes no change in land use, as the prior use was a mixed use project and the proposed use is a mixed-use project. Additionally, all uses in the proposed mixed-use project are permitted by right within the Central Business District zone.

The acquisition activity is also Categorically Excluded per Section 58.35(a)(5), which states "Acquisition (including leasing) or disposition of, or equity loans on an existing structure, or acquisition (including leasing) of vacant land provided that the structure or land acquired, financed, or disposed of will be retained for the same use."

**Finding:** The project involves: 1) acquisition of an existing mixed-use structure; 2) the transaction will be the subject of an equity loan in the form of the loan agreement between the City and MCHC; and 3) upon acquisition the existing structure will be retained for a mixed-use project.

Finally, the rehabilitation and building improvement activities are Categorically Excluded per Section 58.35(a)(3)(i), which states: rehabilitation of buildings and improvements are categorically exempt "when the following conditions are met: (i) In the case of a building for residential use (with one to four units), the density is not increased beyond four units, the land use is not changed, and the footprint of the building is not increased in a floodplain or in a wetland/

**Finding:** The unit density for the residential portion of the mixed-use project will be three units; the residential density will not be increased beyond four units; the land use has not been changed as the use will remain mixed-use; the building footprint will not be increased; and the building is located in a developed portion of the Central Business District wherein there are no wetlands.

Because Section 58.35(a)(3)(iii), 58.35(a)(3)(i), and Section 58.35(a)5 all apply to the acquisition and rehabilitation activity, staff has determined that Section 58.35(6), which permits Categorical Exclusions for "combinations of the above activities" (that is, combinations of activities listed in Section 58.35(a)), is also applicable to these activities.

Because this activity is subject to 24 CFR Part 58.5, staff prepared a Statutory Worksheet (Attachment 5) to determine whether the project could convert to exempt. The Statutory Worksheet requires review and analysis of ten compliance factors and four HUD Environmental Factors. Of



those factors, the items likely to be of most concern and interest to the community include Historic Preservation and Environmental Justice. In order to evaluate impacts on a historical property, staff conducted a thorough review as required per 36 CFR 800, Protection of Historic Properties. Staff requested and received a record search of the Old Coast Hotel property and project area performed by the California Historical Resources Information System's Northwest Information Center (NWIC). The NWIC records search determined that there have been no cultural resource studies of the project area and that there are no recorded archaeological resources. Per the NWIC report, the Old Coast Hotel is listed with a 7W status code (submitted to the Office of Historical Preservation for action but withdrawn), and there are no other recorded buildings or structures that have been documented as historical in the project area. Staff submitted the NWIC correspondence, along with other information required per the Section 106 Consultation Submittal Checklist, to the State Office of Historic Preservation (SHPO). The purpose of the Section 106 submittal to SHPO was to request concurrence with the City's determination that the acquisition and rehabilitation project will have no adverse effects on historic resources. On March 18, 2015, SHPO Preservation Officer Carol Roland-Nawi, Ph.D., issued a letter to the City stating that she does "not object to your determination that no historic properties will be affected by the undertaking." The SHPO correspondence is included as Attachment 5 to the Statutory Worksheet. Additionally, the City consulted with the Sherwood Band of Pomo Indians as required under Section 106 and they indicated that they did not want to engage in Native American consultation regarding the project.

Evaluation for the Environmental Justice factor requires that disproportional human health or environmental effects that adversely affect low income or minority populations must be addressed. Because the homeless services facility acquisition and rehabilitation project provides services to homeless and mentally ill persons who are primarily low-income, and because the proposed facility is centrally located and close to public transportation, grocery stores, and other services, the analysis concludes that there are no adverse impacts to low income or minority populations. In addition, the proposed facility provides significant improvements over the existing cramped MCHC facilities by providing adequate space, interior waiting areas and private consultation facilities.

Finally, the project may convert to exempt status because, per the Statutory Worksheet, it "does not require any mitigation for compliance with any listed statutes or authorities, nor requires any formal permit or license."

## **B. California Environmental Quality Act (CEQA) Determination**

CEQA is a State statute that requires state and local agencies to identify the significant environmental impacts of their actions and to avoid or mitigate those impacts, if feasible. CEQA guidelines are codified in the California Code of Regulations, Title 14, Section 15000 et seq. Because the City is the responsible agency with authority for local project approval, under CEQA regulations, the "project" that must be analyzed includes the City's consideration of approval of the acquisition and rehabilitation activity loan agreement as well as the future activities described in the loan documents. CEQA compliance is thus required as part of the loan approval process and prior to a decision to approve the loan agreement. In contrast, under NEPA regulations, CDBG is the responsible agency, and the NEPA determination as prepared by the City must be accepted by CDBG (as part of General Conditions clearance activities) in order for the project to proceed.

CEQA regulations provide for various levels of environmental review, including:

- **Exempt** activities that are ministerial in nature and do not require discretionary approval by a jurisdiction. Examples of these activities include building permits or business licenses

which are to be granted if applicants meet specifications detailed in permit or license requirements.

- **Statutory exemptions** that are provided in CCR Title 14, Public Resources Code, Article 18, Sections 15260 to 15285.
- **Categorical Exemptions** as listed under Title 14 of the California Code of Regulations, Chapter 3, Article 19. These types of projects have been found by the Secretary for Resources to not have a significant effect on the environment and thus are declared categorically exempt from CEQA.
- **Negative Declaration (ND) or Mitigated Negative Declaration (MND)**, the determination of which can be made after several steps including the preparation of an initial study, analysis of potential environmental impacts, public review, and adoption of the ND or MND. An ND asserts that there is no substantial evidence that a project may have a significant effect on the environment and a MND asserts the same but only after mitigations have been incorporated into the project.
- **Environmental Impact Report (EIR)**, is the appropriate CEQA document when there is substantial evidence in the record that supports a “fair argument that significant effects may occur” as a result of the project (PRC Section 21080(d)).

After analyzing the proposed project (loan agreement and reasonably foreseeable future land uses of the Old Coast Hotel), staff recommends that the acquisition and proposed minor rehabilitation and use of the vacant Old Coast Hotel should be deemed to be Categorical Exempt per Title 14, Article 19, Section 15332 (Class 32) In-Fill Development Projects. Additionally, staff recommends that the project also be deemed to be Categorical Exempt per Title 14, Article 19, Section 15301 (Class 1) Existing Facilities. The analysis upon which these recommendations regarding the project’s categorically exempt status is based is described below.

#### 1. The Project is Categorical Exempt per Section 15332, Class 32, In-Fill Development Projects.

The CEQA Guidelines describes Class 32 Projects<sup>8</sup> as:

*“Class 32 consists of projects characterized as in-fill development meeting the conditions described in this section:”*

*(a) The project is consistent with the applicable general plan designation and all applicable general plan policies as well as with applicable zoning designation and regulations.*

**Finding:** As presented in Section II of this staff report, the project is consistent with the City’s General Plan policies and Inland Land Use and Development Code requirements.

*(b) The proposed development occurs within city limits on a project site of no more than five acres substantially surrounded by urban uses.*

**Finding:** The project is located within the city limits of Fort Bragg. The project site is less than five acres in size. The site is substantially surrounded

---

<sup>8</sup> From California Resources Agency CEQA Guidelines, Title 14 Article 19 Categorical Exemptions, available for public viewing at <http://resources.ca.gov/ceqa/guidelines/art19.html>.

by urban uses, as shown in neighborhood photographs that were submitted in support of the SHPO consultation (see Attachment 5). The project is located on the southern edge of the Central Business District in an area, as illustrated in the photographs, that is substantially developed for urban uses. The facility is bordered on the south by residential and commercial structures; on the west by a new commercial facility; on the north by a multi-family residential structure, on the east by several commercial structures.

- (c) *The project site has no value as habitat for endangered, rare or threatened species.*

**Finding:** The Old Coast Hotel property is completely developed with buildings bordering the parcel line on all sides of the parcel. Interior courtyard areas have been developed into paths, patios, and raised garden beds. The site does not provide habitat for any endangered, rare or threatened species.

- (d) *Approval of the project would not result in any significant effects relating to traffic, noise, air quality, or water quality.*

**Finding:** The project would not result in significant effects relating to traffic, noise, air quality, or water quality. City staff commissioned a traffic study that was prepared for the project by W-Trans (Attachment 6). The study evaluated traffic congestion during AM and PM peak periods, as well as bicycle, pedestrian, and transit facilities. The study found that the Oak and Franklin Street intersection currently operates at a Level of Service (LOS) B and that when project-related traffic is added to existing traffic volumes, the intersection would continue to operate at LOS B which is an acceptable level of service. The study found that pedestrian facilities and transit facilities in the vicinity of the project site are adequate. The study recommended that the City add “sharrows” to Franklin Street in the Central Business District to address the gap in the Class 2 bike lane.

Results of the Traffic Study are further discussed in Section IV-B below. Noise impacts were addressed in the NEPA Statutory Worksheet and found to be negligible. The project does not have any characteristics that would impact air quality or water quality. Air quality will not be negatively impacted, as documented in the Statutory Worksheet, because the facility heating system as rehabilitated in 1996/1997 consists of a hydronic heating system and propane-fired boiler, and fireplaces in the lobby and some former guest rooms that could produce wood-burning sources of particulate matter will be decommissioned. Rehabilitation activities after acquisition are minor, and any permitted work will be monitored for air and water quality impacts by the County Building Inspector per terms of the building permit. The construction component of the project does not include ground disturbing activities or development of currently undeveloped land and so the project will not have an impact on water quality due to stormwater impacts associated with new construction, grading and or development on undeveloped land. Additionally the proposed project would result in less water consumption than the existing authorized use of the site as a restaurant, bar and hotel. Thus the

project will not have significant impacts on traffic, noise, air quality, or water quality.

(e) *The site can be adequately served by all required utilities and public services.*

**Finding:** The Old Coast Hotel is currently served or capable of being served by all required public utilities including phone, electricity, water, sewer, and heating fuel. Internet connectivity is also present and will be enhanced with the proposed rehabilitation. The facility is situated in a central location close to public services such as the post office, City Hall, social services offices, and medical services. The Fort Bragg Fire Department is located within two blocks of the facility, and the Fort Bragg Police Department is within one mile. Fort Bragg Unified School District schools are all located within Fort Bragg city limits and the school district provides bussing to students living more than one mile from the schools. Amenities are available within walking distance or facility users can use Mendocino Transit Authority's bus services which can be accessed from five nearby transit stops.

## **2. The Project is Also Categorically Exempt per Section 15301, Class 1 Existing Facilities.**

The CEQA Guidelines describes Class 1 Projects as:

*"Class 1 consists of the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features, involving negligible or no expansion of use beyond that existing at the time of the lead agency's determination."*<sup>8</sup> *"The key consideration is whether the project involves negligible or no expansion of an existing use."*<sup>8</sup>

**Finding:** The facility meets the Class 1 description of operation, repair, maintenance and minor alterations of an existing private structure. The project includes interior alterations such as partitions, plumbing, electrical work, installation of fire sprinklers, etc. Some of the rehabilitation work is necessary to meet current public health and safety standards. The proposed reuse of the Old Coast Hotel (offices, services, a café, and three units of housing) is consistent with and involves a negligible expansion of the activities associated with the former restaurant and hotel use at the site. The prior hotel use included fifteen hotel rooms and a much larger restaurant than the proposed use. These prior uses generated more foot and auto traffic than the proposed: three units of housing, smaller café, and offices. Thus the proposed use is a negligible expansion if not a reduction in the intensity of use.

Furthermore, the Project's proposed uses are all permitted "as of right" at the Old Coast Hotel location by the City's ILUDC. Were it not for the Forgivable Loan Agreement for the project funding, the Old Coast Hotel project would not require any discretionary approvals from the City (the required building permits are ministerial) and it would be deemed statutorily exempt under CEQA (Public Resources Code Section 21080).

Additionally, the project can be found as categorical exempt under Existing Facilities **Class 1(a): Interior or exterior alterations involving such things as interior partitions, plumbing, and electrical conveyances.**

**Finding:** As described above the project includes negligible expansion of use and includes exterior modifications (removal of a door) and interior modifications such as installation of plumbing and electrical fixtures to accommodate fire sprinkling; potential room partitioning; and installation of kitchen plumbing and electrical equipment and connections.

#### IV. OTHER CONSIDERATIONS

##### A. Current occupancy/tenant relocation

CDBG activities are subject to the Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA)<sup>9</sup>, Section 104(d) of the Housing and Community Development Act of 1974 as amended<sup>10</sup>, and HUD Handbook 1378<sup>11</sup>. URA requires that each commercial and/or residential tenant who will be relocated due to implementation of a CDBG project must be compensated for all relocation costs, including counseling, moving costs, rent differentials, rent and utility deposits, etc. Low income tenants are eligible for 60 months of assistance; other tenants are eligible for 42 months of assistance. Relocation assistance to low-income residential tenants who are displaced is especially complicated due to a lack of low-cost rental housing in Fort Bragg. It is likely that residential tenant relocation costs would result in maximum payouts. The fact that the Old Coast Hotel is currently vacant and can be reused without paying relocation costs is thus a significant financial benefit to the Old Coast property, and further differentiates it from other properties the MCHC considered.<sup>12</sup>

Alternative properties reviewed by MCHC that may otherwise have been potentially viable locations were disqualified due to the projected expense of relocating existing tenants.

##### B. Response to Community Concerns

The City has received a number of letters, emails and comments expressing concerns related to the suitability of the 101 No. Franklin Street location for a homeless and mental health services facility. To assist with dissemination of correct information and in an effort to dispel false rumors, the City established a “Homeless Services Facility” webpage (see <http://city.fortbragg.com/491/Homeless-Services-Facility>), which provides links to project history, agenda reports, and other information about the project, including a “Homeless

---

<sup>9</sup> Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (URA)

<sup>10</sup> 42 United States Code, Section 5304(d)]

<sup>11</sup> Tenant Assistance, Relocation and Real Property Acquisition Handbook (1378.0), available at HUD.gov, [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips/handbooks/cpd/13780](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/cpd/13780)

<sup>12</sup> When MCHC entered into a Purchase Option with the sellers of the Old Coast Hotel, there was one non-profit organization leasing the Oak Street office portion of the facility. The tenant was formally notified in December 2014 of a potential purchase of the property with CDBG funding that might result in displacement of the tenant. Staff engaged the services of a professional relocation specialist to ensure proper implementation of URA requirements. The tenant was advised that if the sale proceeded, relocation benefits as provided by the URA would be made available to the tenant. The tenant opted to move out prior to the eligibility date and thus is not eligible for URA assistance.

Services Facility Fact Sheet” (Attachment 7). In addition, MCHC distributed a separate “Fact Sheet” about the project (Attachment 8). The primary concerns expressed and responses to these concerns are summarized below.

## 1. Privacy concerns

Several letters were received from clinical and medical personnel, some of whom expressed concerns about patient privacy at the 101 No. Franklin Street location. Several other professionals in the clinical and medical field expressed support of the Old Coast Hotel facility as a highly desirable and suitable location. Privacy concerns include perceived issues both inside the facility and outside. Inside the facility, “partitioned office space” and the “old building with no sound proofing” were cited as an impediment to client privacy and as a potential violation of HIPAA (the Health Insurance Portability and Accountability Act). HIPAA is primarily concerned with security and privacy of client records, rather than service locations, so that concern is not applicable but below, the City addresses the generalized concern regarding clients’ privacy inside the Old Coast Hotel building. Another concern is that the location at the busy intersection of Franklin and Oak Streets would compromise the privacy of MCHC and Access Center clients by revealing their identity to passersby.

Regarding interior sound quality, the 1996/1997 Old Coast Hotel rehabilitation project included installation of new interior and exterior wallboard, including new studs, shearing and bracing, throughout the facility. In addition, the hotel has modern floor coverings, including new or restored carpeting in all guestrooms. With the rehabilitation, the entire facility was brought up to then-current Uniform Building Code (UBC) standards, including soundproofing standards. Pursuant to UBC (Title 25, Chapter 1, Subsection 1, Article 4, Section 1092), the standard for new hotels, motels, apartment houses, and dwellings other than detached single family homes is Sound Transmission Class (STC) of at least 50 between guest rooms.<sup>13</sup> According to Wikipedia, buildings maintaining a standard of STC-50, allow only “very loud sounds such as musical instruments or a stereo” to be “faintly heard,” such that “99% of population [is] not annoyed.”<sup>14</sup> This standard is not required for other commercial facilities, such as the current location of MCHC and the Mental Health Access Center, so it is likely that the current soundproofing throughout the Old Coast Hotel, without any additional modifications by MCHC, exceeds the soundproofing of the current MCHC and Mental Health Access Center locations.

Moreover, the additional space offered at the Old Coast Hotel allows for establishment of private meeting spaces in four former guest rooms (two upstairs and two downstairs in the rear wings of the hotel). If a larger room in the former restaurant area is partitioned to create private consultation rooms, the need for privacy would be addressed with final construction design. The Old Coast Hotel space allows flexibility in delivery of services in private or group settings that is far superior to current conditions for MCHC clients at the South Franklin strip mall. See Attachment 3 for interior and exterior photos of the current MCHC facility on South Franklin Street.

Regarding exterior privacy, the Old Coast Hotel offers both indoor and outdoor, off-street waiting and reception areas for MCHC clients. MCHC clients will enter the facility primarily through the courtyard, which is accessible through a gate located near the northern edge of the Franklin Street side of the property. The courtyard offers outdoor covered and open spaces and is surrounded by a high, solid wood fence on the Franklin Street and north

---

<sup>13</sup> Also according to Wikipedia, “Sound Transmission Class (or STC) is an [integer](#) rating of how well a [building partition](#) attenuates airborne [sound](#).”

<sup>14</sup> Wikipedia, [http://en.wikipedia.org/wiki/Sound\\_transmission\\_class](http://en.wikipedia.org/wiki/Sound_transmission_class); STC partition ratings taken from: “Noise Control in Buildings: A Practical Guide for Architects and Engineers”; Cyril M. Harris, 1994.

property lines, and bordered by the hotel on the south and west sides. From the courtyard, clients can access indoor waiting areas, meeting/activity rooms, and private consultation areas. Again, the privacy of the courtyard at the Old Coast Hotel would be a significant improvement over the current South Franklin Street strip mall property, which has no waiting area inside or outside the offices, such that MCHC clients must wait in an unprotected, open alley. In addition, the parking lot at the South Franklin strip mall is highly congested during business hours, with employees and visitors to the neighboring businesses.

At the current Mental Health Access Center location on South Main Street, the front door and available parking is accessed from and is highly visible from Main Street, very near the busy Chestnut/Main Street intersection. (See Attachment 3 for pictures of the current Access Center facility.) The new Access Center will be located in the south wing of the Old Coast Hotel in separate offices accessed through a private entrance on Oak Street. This space offers a spacious, private and peaceful setting for those waiting for appointments or attending private consultations. The 100 block of Oak Street offers on-street parking as available, and walk-in visitors can be accommodated in a waiting area. The Access Center operators have also requested use of two additional former guest rooms adjacent to the new Access Center offices, which would increase available private consultation space.

## **2. Concerns that proposed use will cause negative impacts on a historical facility**

As described above, the use and size of the Old Coast Hotel has evolved over the past 125 years, from its original construction as a boarding house comprised of just a Franklin Street wing, to include incorporation and reconstruction of out-buildings to add the bar seating area, office spaces, and additional guest rooms along the Oak Street and alley wings, all of which combined to create the Old Coast Hotel as configured today. Thanks to the major remodel and guest room addition completed in 1997, the facility is in excellent condition and modernized to current building code standards, with many historical features restored or re-created. For example, the lovely mahogany “historical bar” installed in 1997 is a replica of an old-fashioned bar, with modern conveniences. The historical tin-stamped wall and ceiling tiles present in the lobby, restaurant, and six guest rooms, have been restored and replaced as necessary, as have the lighting fixtures. The tin stamped tiles now incorporate modern fire sprinkling that was carefully installed during rehabilitation. Although the hotel interior is in pristine condition, the exterior is beginning to display neglect due to at least five years of vacancy.

The draft Loan Agreement in Section 3.4(c) makes failure to maintain the property an “Event Triggering Repayment.” The draft Loan Agreement specifically protects historical attributes by requiring that for the 20-year loan term, MCHC must “...*substantially maintain the Property in its acquired condition as of the Agreement date*” and must “*protect and preserve specialized restored or replicated historical attributes of the Property, including, but not limited to, stamped metal ceilings and walls and specialized light fixtures.*” In addition, any rehabilitation improvements funded with the loan must likewise be maintained “in its post-rehabilitation condition, normal wear and tear excepted” (Loan Agreement Section 3.2(d)). After five years of vacancy, re-use of the building as restricted by the draft Loan Agreement will thus ensure that the interior and exterior of the building remain in the current restored condition.

## **3. Concerns that the Old Coast Hotel is not adequately accessible to disabled individuals**

The 1997 rehabilitation and upgrades included modifications to ensure accessibility consistent with ADA requirements in the restaurant and bar areas, to then-current

standards. In addition, a rear alley room was remodeled to be completely ADA accessible. Mental health and homeless services will be fully accessible. While the upstairs transitional housing units are not accessible, MCHC may at a later date seek City Council approval to utilize the accessible alley unit. In the meantime, MCHC does not plan to make any permanent changes to that room. MCHC does offer a fully accessible handicap unit at the Harrison Street House Transitional Housing facility.

#### **4. Concerns that better locations in Fort Bragg are available for this facility**

As noted in the City's "Fact Sheet" and previous staff reports related to this item, MCHC has reviewed and analyzed approximately 20 different properties since the original Harrison Street location was abandoned. As described in the "Suitability of Property for Proposed Purpose" section above, The City was required to and did weigh a number of factors in determining suitability of a property, including:

- a) Sufficient space and configuration of space
- b) Acquisition cost
- c) Rehabilitation needs and cost
- d) Current occupancy (cost of commercial and/or residential relocations, including impacts on current employees of operating businesses)
- e) Zoning consistency
- f) Off-street parking requirements
- g) Impacts on residential or commercial neighbors
- h) Impacts on tourism

A sample of specific properties that were reviewed by MCHC includes:

- 325 S. Franklin Street (former Social Services building owned by the Affinitos). After an initial review and rejection by MCHC staff and Board due to cost, size, and permitting concerns, this property was reviewed a second time at the request of the public. A tour was provided to MCHC staff, board members, and architect, as well as City staff and a Council member. It was apparent from the tour that the building has been gutted and would require significant rehabilitation. The lowest quoted selling price received from the owners, combined with the significant rehabilitation requirements, would far exceed available funding. Also, the lease transaction proposed by the owners is not allowable by CDBG. Transitional housing is not a permitted use at this location and would require a use permit. These factors combined to make the property unsuitable for the grant activities.
- 250 S. Main Street (Ebb Tide Lodge). While this property is not formally on the market, it was toured by MCHC Board and staff, City staff and a Council member, at the suggestion of a member of the public. The lowest-offered selling price exceeded available grant funding before any rehabilitation costs. Significant rehabilitation would be required to bring the building to standards. Further, this is an open and operating lodging facility that is currently generating Transient Occupancy Tax (TOT) and has current employees who would be displaced, incurring further relocation costs. In addition, this property is located on Main Street along the main tourist corridor. These factors combined to make the property unsuitable for the grant activities.



- 615 N Main Street (Grey Whale Inn). Combined acquisition and necessary rehabilitation, including deferred maintenance, exceed available funding. This property is in a location bordered by several other hotels and on Main Street, which is the primary tourism corridor. This property is currently generating TOT and has current employees who would be displaced, incurring further relocation costs. These factors combined to make the property unsuitable for the grant activities.
- 700 N Main Street (The Atrium). This property is currently generating TOT and has current employees who would be displaced, incurring relocation costs. It is located in a two-block section of Main Street where four other Bed & Breakfast establishments and two hotels are located. Concerns regarding tourism impacts combined with cost factors and impacts on employment made this property unsuitable for grant activities.
- 138 East Oak Street (The Oaks). This was perceived as a suitable location and thoroughly investigated by MCHC. MCHC entered into negotiations for this property but were unable to gain access to the apartment units to gather necessary information regarding rehabilitation needs in order to ascertain whether the acquisition plus rehabilitation costs would exceed available funding. Despite estimated rehabilitation needs (that are known to be significant), the owner would not reduce the price to an affordable level. In addition, this facility was found to be fully occupied by up to 13 low-income tenants who would need to be re-located using grant funds, which would be prohibitively expensive and detrimental to the inhabitants. As a result of these factors, this property was found to be unsuitable for the grant activities.

In addition to the properties described above, MCHC reviewed and rejected for various but similar reasons: four locations on Main Street; five locations on Franklin Street; four locations on Harrison Street (in addition to 300 No. Harrison); a location on Cypress Street; a location on East Oak Street; and a location on East Redwood Avenue.

**5. Concerns that acquisition of the facility will result in an increase in homeless persons in Fort Bragg and congregations of homeless in the vicinity of the facility**

MCHC serves homeless individuals and persons suffering from mental illness who participate in programs on a voluntary basis. Those who avail themselves of MCHC services are seeking a path towards self-sufficiency and out of poverty. By and large, MCHC's clientele does not include the homeless individuals who create problems in our community and exhibit unwelcome behaviors. MCHC is already providing the same services they will provide at the new facility, and there is no evidence or reason to believe that their services will attract new homeless individuals to Fort Bragg simply because they have more space in their new facility. Regarding concerns that homeless persons will congregate outside the new facility, the ability to have clients enter into and wait for appointments in the enclosed, private courtyard or the large indoor lobby removes the need to assemble on the sidewalk outside the building. This is a vast improvement over the current South Franklin Street location, which has no waiting area inside the offices. In addition, MCHC staff will have excellent visibility through the many street-facing windows at the Old Coast Hotel and will be able to provide consistent monitoring of the street frontage.

**6. Concerns about parking and traffic impacts.** Parking impacts are discussed in the General Plan and Zoning Consistency section of this report. As noted, like any other new

business locating to the Central Business District, pursuant to 18.36.080 of the ILUDC, MCHC is not required to provide parking. However, to accommodate parking demands of MCHC or iCMS employees and clients, MCHC is working to secure off-street parking from three nearby property owners who have existing and unused parking spaces. Alan Glover of 138 E Oak Street has provided a letter of permission to the MCHC allowing the MCHC to use up to four spaces of the Oak's under-utilized off-street parking lot.

To fully analyze potential traffic impacts, the City commissioned a traffic study by W-Trans (traffic engineers) (Attachment 6). The W-Trans Study was completed in accordance with the standard traffic impact study procedures and analyzed: (1) the intersection level of service at Oak Street/Franklin Street without and with the Project for existing and future conditions; and (2) the adequacy of the proposed site access for vehicles, pedestrians and bicycles. The study concluded that the Oak and Franklin Street intersection currently operates at a Level of Service (LOS) B and that when project-related traffic is added to existing traffic volumes, the intersection would continue to operate at LOS B which is an acceptable level of service. The study found that pedestrian facilities and transit facilities in the vicinity of the project site are adequate, and that the project would not be expected to cause the need for intersection modifications at Franklin Street/Oak Street

#### **FISCAL IMPACT:**

The homeless facility acquisition and rehabilitation project would be funded using the 2014 CDBG grant funds. The CDBG grant funds are adequate to pay for the facility acquisition and rehabilitation, including direct costs such as design, construction management, permits, and labor standards monitoring. CDBG General Administration funding is adequate to pay for City staff time required to perform grant specific as well as general program administrative tasks. The CDBG program releases funds on a reimbursement basis. Once the City expends project related funds, the City must request reimbursement from CDBG. The City generally has adequate funds to cover CDBG expenditures until reimbursement. Without the CDBG funding, the non-profit MCHC would continue to provide services in the existing location, which is inadequate and potentially harmful to the neediest residents of the City. In addition, without additional transitional housing units, the community will continue to face difficulties in helping individuals and families transition out of homelessness and into stable homes and productive lives.

#### **CONSISTENCY:**

The reuse of the Old Coast Hotel facility as proposed is consistent with the General Plan and ILUDC. The project has been determined to be Categorical Excluded from NEPA Subject to Part 58.5 per NEPA regulations per sections 24 CFR 58.35(a)(3)(iii), 58.35(5), 58.35(a)(3)(i), and 58.35(6); and Categorical Exempt from CEQA pursuant to Title 14, Article 19, Section 15332, Class 32 In-Fill Development Projects and Section 15301, Class 1 Existing Facilities.

#### **IMPLEMENTATION/TIMEFRAMES:**

If the Resolution approving the Forgivable Loan Agreement is adopted, it will be submitted to CDBG along with other documents that are required for clearance of General Conditions. These items include site control documentation, environmental documentation, URA compliance, procurement compliance, funding commitments, cost estimates, timeline or schedule, Davis-Bacon Labor Standards Compliance information, and Section 504 Accessibility requirements. Once CDBG approves these items, CDBG will notify the City that the activity may be implemented. Once CDBG approval to proceed is received, the City may fund the escrow account to be established for the acquisition transaction. Once the acquisition is completed, rehabilitation tasks may commence. If the loan agreement is approved, all activities are expected to be completed by December 31, 2015.

**ATTACHMENTS:**

1. Resolution
2. Loan documents
3. Photos of current MCHC South Franklin Street offices and current Access Center offices
4. Historical Resources Information System Search Documentation and Response
5. Statutory Worksheet and attachments
6. W-Trans Traffic Study
7. City "Homeless Services Facility 101 N. Franklin Street" Fact Sheet
8. MCHC Fact Sheet

**NOTIFICATION:**

1. Anna Shaw, MCHC
2. Mark Montgomery, Ortner Management Group

**City Clerk's Office Use Only**

Agency Action      ☐ Approved      ☐ Denied      ☐ Approved as Amended

Resolution No.: \_\_\_\_\_ Ordinance No.: \_\_\_\_\_

Moved by: \_\_\_\_\_ Seconded by: \_\_\_\_\_

Vote: \_\_\_\_\_

☐ Deferred/Continued to meeting of: \_\_\_\_\_

☐ Referred to: \_\_\_\_\_