City of Costa Mesa

Agenda Report

Item #: 26-350 **Meeting Date: 8/04/2026**

TITLE: APPROVAL OF AGREEMENTS FOR AMERICAN FAMILY HOUSING AVON RIVER APARTMENTS PROJECT LOCATED AT 1400 BRISTOL STREET

DEPARTMENT: COMMUNITY DEVELOPMENT DEPARTMENT / ADVANCED PLANNING AND HOUSING DIVISION

PRESENTED BY: NANCY SA, GRANT ADMINISTRATOR AND ANNA MCGILL, PLANNING MANAGER

CONTACT INFORMATION: NANCY SA, GRANT ADMINISTRATOR (714) 754-5678

RECOMMENDATION:

Staff recommends the City Council:

1. Authorize the City Manager, or their designee, to execute all applicable agreements necessary to advance the Avon River Apartments Project, contingent upon completion of HUD requirements for receipt of Home Investment Partnership Program (HOME) funds.

2. Authorize the City Manager, or their designee, to execute a Memorandum of Agreement (MOA) with the County of Orange regarding Regional Housing Needs Allocation (RHNA) Progress Credits.

BACKGROUND:

On June 20, 2023, the City Council approved funding commitments of $2,500,000 in Low- and Moderate-Income Housing Asset Funds (LMIHAF) and $1,500,000 in ARPA funds to American Family Housing (AFH) for the conversion of the Travelodge North Motel under the State's Homekey Round 3 program. The project, now called Avon River Apartments, is a 78-unit affordable housing development that will serve 76 extremely low-income households and include 2 manager units.

- June 20, 2023, Agenda Report and Attachments: https://costamesa.legistar.com/LegislationDetail.aspx?ID=6264203&GUID=E6ABBEB9-279B-41F0-A414-0E1D2CB82D9B

On August 12, 2025, the City issued a Request for Proposals (RFP) for $1.5 million in HOME Investment Partnership Program funds. Two proposals were received; AFH submitted a request for critical gap financing for the Avon River Apartments project. On March 17, 2026, the City Council approved an allocation of $350,000 in HOME funds to AFH, contingent upon completion of the NEPA environmental review and the HOME Subsidy Layering Review.

- March 17, 2026, Agenda Report and Attachments: https://costamesa.legistar.com/LegislationDetail.aspx?ID=7949566&GUID=4649235E-D457-408E-BA5B-A2B28425D4A5

AFH also applied for the County of Orange's 2026 Supportive Housing Notice of Funding Availability (NOFA) and was awarded $4,100,000 for the Avon River Apartments project. As a condition of the County's award, AFH must obtain City approval of a RHNA credit-sharing MOA and a subordination agreement.

Construction of the Avon River Apartments project is approximately 96% complete. AFH estimates completing construction and receiving the Certificate of Occupancy in late summer 2026, with tenant move-ins occurring shortly thereafter. The additional funding mentioned above will allow AFH to complete the project.

ANALYSIS:

One of the goals of the Costa Mesa City Council is to diversify, stabilize, and increase housing to reflect community needs. While the City boasts a comprehensive system of care for those experiencing and at-risk of homelessness, one of the few remaining gaps is the availability of permanent affordable housing coupled with intensive wrap-around services, known as Permanent Supportive Housing (PSH). AFH's project would add 76 units of PSH and 2 Manager Units, for a total of 78 units.

The County's loan amount will not be released until the City approves both the subordination agreement and the RHNA credit-sharing MOA. Although the City is still completing its HUD environmental review and subsidy layering review, staff is presenting these items now to avoid delays that could affect timely completion of the project and allow AFH to continue with construction.

City Grant and Loan Agreement

The City executed a Grant and Loan Agreement with AFH in 2025 for the LMIHAF and ARPA commitments. Staff recommends authorizing the City Manager to execute an amendment to include the additional HOME funding, contingent upon HUD's required environmental and subsidy layering reviews. The City's amended and restated loan document and promissory notes are included as Attachments 1 and 2, respectively.

The County's award also requires a subordination agreement naming the City's loan as subordinate. This means the City's mortgage liens would be subordinate to the County's senior mortgage and, in the event of default, the County's lien would be addressed first. The agreement to subordinate to County loans is included as Attachment 3.

RHNA Credit Share

Under the County's 2026 NOFA, developments receiving County funds must include RHNA credit sharing. For this project, the County requests credit for 23 extremely low-income units.

The City's RHNA allocation for the 2021–2029 Housing Element is 11,760 units. Cities typically must plan for a 15% buffer (1,764 units), resulting in a planning target of at least 13,524 units. Following City Council action on March 17, 2026, to remove 17 sites from the City's Housing Element, the City made no net loss findings and is identifying additional sites to accommodate its RHNA capacity. The City has already reported the 78 PSH units from Avon River Apartments in its 2025 Housing Element Annual Progress Report. Reducing the City's credit by 23 units prior to the City re-establishing adequate RHNA capacity and obtaining Housing Element certification would further jeopardize the City's ability to maintain substantial compliance with State housing requirements.

To support AFH's ability to secure essential gap financing, the City and County have drafted an MOA specifying that RHNA credit sharing will occur only after the City demonstrates adequate capacity to meet its RHNA allocation and buffer through its Housing Element revision process and is able to obtain Housing Element certification. The draft MOA is included as Attachment 4.

Typically, RHNA Progress Credit is granted in the jurisdiction within which the housing development project is located. However, in this case, the County funding is a critical element of achieving the residential units at all, so sharing RHNA credit with the County enables the units to be created.

ALTERNATIVES:

The City Council may choose not to approve the requested agreements. If the MOA and subordination agreement are not approved, AFH will be unable to draw down County funds, resulting in the Avon River Apartments project lacking the gap financing necessary to complete construction.

FISCAL REVIEW:

There is no fiscal impact to the City's General Fund. The funds from LMIHAF and ARPA committed to the project were previously approved by City Council and the funding sources approved are restricted sources that can only be used for low- and moderate- income affordable housing opportunities.

LEGAL REVIEW:

The City Attorney's office has reviewed this report and approved it as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the following City Council Goal:

- Diversity, Stabilize and Increase Housing to Reflect Community Needs

CONCLUSION:

Staff recommends the City Council:

1. Authorize the City Manager, or their designee, to execute a Memorandum of Agreement (MOA) with the County of Orange regarding Regional Housing Needs Allocation (RHNA) Progress Credits.

2. Authorize the City Manager, or their designee, to execute all applicable agreements necessary to advance the Avon River Apartments Project, contingent upon completion of HUD requirements for receipt of Home Investment Partnership Program (HOME) funds.