



Office of the City Manager

CONSENT CALENDAR
March 21, 2023

To: Honorable Mayor and Members of the City Council
From: Dee Williams-Ridley, City Manager
Submitted by: Lisa Warhuus, Director, Health, Housing, and Community Services
Subject: Funding Recommendation and Joint Homekey Application for the University Inn at 1461 University

RECOMMENDATION

Adopt three resolutions approving the following actions in support of a Homekey program funding allocation by:

1. Reserving up to \$8,500,000 in General Funds received pursuant to Measure P for the University Inn permanent supportive housing project at 1461 University Avenue as proposed by a partnership between Memar Properties (Memar) and Housing Consortium of the East Bay (HCEB).
2. Reserving up to \$1,000,000 in General Funds received pursuant to Measure P for Memar and HCEB to operate the University Inn as an emergency shelter prior to permanent housing conversion.
3. Authorizing the City Manager or her designee to prepare and submit a joint application together with Memar and HCEB for the State of California Housing and Community Development (HCD) Department's Homekey program for the University Inn permanent supportive housing project. And, further authorizing the City Manager or her designee to include the issuance date of the Notice of Funding Availability, once available, in the resolution.
4. Authorizing the City Manager or her designee to take actions needed for the City's participation in HCD's Homekey program, including entering into HCD's Standard Agreement and any amendments.
5. Authorizing the City Manager or her designee to execute all original or amended documents or agreements to effectuate these actions.

SUMMARY

In response to a Request for Proposals issued on November 29, 2022, Health, Housing, and Community Services (HHCS) received two proposals to convert interim housing to permanent supportive housing under the State of California Housing and Community

Development (HCD) Department's Homekey program: one from Memar Properties, Inc. (Memar) and Housing Consortium of the East Bay (HCEB) for the University Inn project and another from Berkeley Food & Housing Project (BFHP) for the Russell Street project. Based on careful review of the proposals, the projects' feasibility, applicant experience with the Homekey program, and an evaluation of development team capacity, staff recommends selection of the University Inn project.

Memar and HCEB requested \$8.5M in City funds to support the conversion of the University Inn, which is located at 1461 University Avenue and formerly known as the Rodeway Inn, into permanent supportive housing for people experiencing chronic homelessness. The development team requested an additional \$1M to continue operating the University Inn as interim housing prior to permanent housing conversion. In order to access HCD's Homekey program funds, the City will need to jointly apply with the development team and provide matching funds.

Homekey is a State program that provides government entities with funding to purchase and rehabilitate properties, including hotels, motels, and vacant apartment buildings, and convert them into interim or permanent housing. Homekey projects serve people experiencing homelessness or who are also at risk of becoming homeless.

In anticipation of HCD's Homekey NOFA release, City Council approved issuing a Request for Proposals (RFP) and authorized the consideration of requests of up to \$8.5M. The City issued an RFP on November 29, 2022 to select an eligible Homekey project and development team.

FISCAL IMPACTS OF RECOMMENDATION

The first attached resolution would reserve \$9,500,000 in City General Funds received pursuant to Measure P. The majority of these funds (\$8,500,000) would support the costs of converting the University Inn into permanent supportive housing and \$1,000,000 would be used to continue operating the property as emergency shelter for the period between the expiration of the current operator's contract and permanent housing conversion. Funding is subject to appropriation in the FY 2024 budget in the Measure P fund (Fund# 011).

If the joint application to the Homekey program is successful, the City will not receive the \$15,005,360 requested; rather, these funds will go directly to Memar and HCEB, or the entity they create, to finance this project. If HCD requires the City to be the recipient of Homekey funds, the City would need to pass the funds through to the project.

University Inn will need ongoing operating support after the proposed capitalized operating reserves are expended (expected in the eighth year of property operations). No reservation of operating funds is recommended at this time. Staff will work with the development team to identify sources of funds to support the long-term operations of this project.

CURRENT SITUATION AND ITS EFFECTS

The City issued an RFP on November 29, 2022 to select an eligible Homekey project and development team. The RFP included \$8.5M in City funds, including General Funds received pursuant to Measure P. HHCS received two proposals to convert interim housing to permanent supportive housing: one from Memar Properties, Inc. and Housing Consortium of the East Bay for the University Inn project and another from Berkeley Food & Housing Project for the Russell Street project. Based on careful review of the proposals, the projects' feasibility, applicant experience with the Homekey program, and an evaluation of development team capacity, staff recommends selection of the University Inn project. Because this report was finalized prior to the release of the 2023 Homekey NOFA, staff will need to add the NOFA issuance date to the resolution, once available.

HCEB and Memar requested \$8.5M in City funds to support the conversion of the University Inn, which is formerly known as the Rodeway Inn and located at 1461 University Avenue, into permanent supportive housing for people experiencing chronic homelessness. Forty-two of the 43 rooms would be affordable to households earning up to 30% of the area median income (AMI), with the other unit set aside for the resident manager. HCEB would act as the service provider and property manager, and select tenants through the Countywide Coordinated Entry System (CES). The development team proposed prioritizing residents currently residing at the University Inn, which is currently leased by the City as an emergency shelter. Memar and HCEB have requested an additional \$1M to continue operating the University Inn as interim housing prior to permanent housing conversion.

The proposed project is eligible for an estimated \$15M in HCD Homekey funds, including three years of operating subsidy. The development team is pursuing funding from Alameda County Healthcare Services Agency for \$316,000 to \$461,000 per year in services (starting in year four). Full commitment for the services funding would need Board of Supervisors approval.

Because the proposed project would provide permanent supportive housing for 42 formerly homeless households, it would require significant and ongoing operating subsidies. A portion of the HCD Homekey funds and City funds would be used for capitalized operating reserves to support the project's first seven years of operations. The development team did not identify a source of funds for the operating subsidy beyond the seventh year of operations (2030). The project would need approximately \$660,000 in subsidies per year in year 8. While it is impossible to predict costs that far in the future, an assumed increase rate of 2.5% per year would escalate the subsidy needed annually to \$785,000 in year 15. The development team and the City will work together to identify potential sources of funding to support the project's long-term operations.

In order to meet the eligibility requirements of HCD's Homekey program, the City will need to jointly apply with the development team and provide matching funds. The City's General Funds received pursuant to Measure P constitute the required match. In order for the project to receive the Homekey funds, the City will be required to enter into the State's Standard Agreement for the project, but staff do not anticipate that the City will receive any funds directly. If HCD does require disbursements to the City, the City will pass the funds through to the project. The Standard Agreement will be 55 years for permanent housing. The City will also execute loan documents with the development team. Staff recommends that the City enter into a side agreement clarifying responsibilities between HCEB and Memar and the City for the joint application for Homekey funds. The City entered into similar side agreements with developers for other state funding programs. The second attached resolution will provide the City Manager with the authority to do so.

Berkeley Food & Housing Project (BFHP) requested \$8.43M to purchase and rehabilitate two adjacent parcels (located at 1741, 1743, and 1747 Russell Street), where it currently operates a 17-bed Board and Care (Russell Street Residence) and 4 units of interim housing (Russell Street Annex). BFHP proposes two development phases. In the first phase, BFHP proposes to rehabilitate and operate 25 interim housing beds for people with a disability or mental illness who are experiencing or at risk of homelessness. In the second phase, BFHP proposes to convert to 23 units of permanent supportive housing for unhoused persons and people at risk of homelessness, many of whom would be veterans.

BFHP has operated Russell Street Residence since 2002 in close partnership with the Mental Health division (HHCS/MH). Funds are critically needed to secure the site and prevent the loss of Board and Care beds. However, Staff analysis of the property condition, permanent housing development plan, and relocation plan deemed the proposal less competitive for Homekey funding than the University Inn proposal. Based on preliminary feedback from HCD, staff are concerned that HCD would not consider Board and Care units at Russell Street Residence as eligible interim housing, making it less likely to be selected as a Homekey project.

Reserving funds for affordable housing projects and jointly applying for Homekey funds are Strategic Plan Priority Projects, advancing our goal to create affordable housing and housing support service for our most vulnerable community members.

BACKGROUND

Homekey is an HCD program that provides government entities with funding to purchase and rehabilitate properties, including hotels, motels, and vacant apartment buildings, and convert them into interim or permanent housing. Homekey projects serve people experiencing homelessness or who are also at risk of becoming homeless. The program typically provides funding of up to \$200,000 per unit (depending on unit type), and may increase the subsidy if there are local matching funds. HCD is expected to

issue a NOFA for the third round of Homekey funding in Spring 2023, and it has not yet been released as of the drafting of this report. In the last funding cycle, HCD accepted applications and made awards on a rolling basis. HHCS staff are therefore motivated to seek Council approval as soon as is feasible after the NOFA release, in order to submit an application to HCD Homekey and maximize the project's chances of getting funded.

In 2021, the City submitted a successful joint Homekey application with Bay Area Community Services (BACS) and Memar for the Golden Bear Inn, which is located at 1620 San Pablo Avenue and was formerly operated as a 44-room hotel. The project reached full occupancy in January 2023 and serves chronically homeless households, with services provided by BACS.

The University Inn, which is also referred to as the Rodeway Inn, was one of the initial Project Roomkey emergency shelters during the height of the COVID-19 pandemic. The City received an award to continue operating the property as an emergency shelter through the State of California's Encampment Resolution Funding (ERF) program. This funding is scheduled to expire in October 2023.

In anticipation of HCD's Homekey NOFA release, the City of Berkeley issued a Request for Proposals (RFP) to select an eligible Homekey project and development team. On September 13, 2022, City Council approved the issuance of the City's Homekey RFP, and authorized consideration of up to \$8.5M in funding for a Homekey project. The RFP included a maximum developer fee of \$1M, which is aligned with Homekey projects approved in other jurisdictions.

Due to the constrained timeline and the City's desire to submit an application to HCD as soon as is feasible, this specific Homekey project proposal was not reviewed by either the Homeless Services Panel of Experts (HSPE) or the Housing Advisory Commission (HAC). However, both commissions took action to support future Homekey projects more generally.

On February 1, 2022, the HSPE took the following action:

Action: M/S/C (Marasovic/Feller) to recommend that the City consider using up to \$17 million from Measure P monies for Project Homekey 3 applications with the City considering diverse funding streams so that both applicants can apply.

Vote: Ayes: Johnson, Jones, Marasovic, Feller, and Kealoha-Blake. Noes: Meany. Abstain: None. Absent: Bookstein.

On February 2, 2023, the HAC took the following action:

Action: M/S/C: (Mendonca/Lee-Egan) to recommend that Council approve up to \$17M in Measure P funding for both the Rodeway Inn and the Russell Street project, as well

as \$1M to operate the Rodeway Inn as interim housing prior to permanent housing conversion.

Vote: Ayes: Fain, Johnson, Lee-Egan, Mendonca, Potter, Sanidad. Noes: None.
Abstain: None. Absent: Calavita (Excused), Rodriguez (Unexcused), Simon- Weisberg (Excused).

Upon completing a full evaluation of both proposals as well as an analysis finding that there is not enough Measure P funding available for both projects without reducing funding for other critical homeless services, staff is recommending that City Council select one new Homekey project.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no environmental sustainability effects directly associated with the recommendations in this report. If the City's funding application is successful, the project will be acquired and rehabilitated, which is generally considered a more sustainable type of development.

RATIONALE FOR RECOMMENDATION

Creation of permanent supportive housing through a partnership with Memar and HCEB will support chronically unhoused individuals in the City, and will bring new permanent supportive housing units online on an expedited timeline. While both projects would preserve critical affordable housing units, HHCS staff deemed the University Inn proposal most competitive for HCD Homekey funds.

ALTERNATIVE ACTIONS CONSIDERED

The City could decline to participate in the Homekey program. Since that would not be consistent with the City's Strategic Plan to increase affordable housing opportunities, staff is recommending participation as described above.

CONTACT PERSON

Jenny Wyant, Senior Community Development Project Coordinator, HHCS, (510) 981-5228

Attachments:

- 1: Resolution - Approval of the Funding Reservation for the University Inn Homekey Project
- 2: Resolution - Joint Application for Homekey Funds for University Inn Homekey Project Located at 1461 University
- 3: Resolution – Authorizing Joint Application to and Participation in the Homekey Program for University Inn

RESOLUTION NO. ##,###-N.S.

APPROVAL OF THE FUNDING RESERVATION FOR THE UNIVERSITY INN
HOMEKEY PROJECT

WHEREAS, the City of Berkeley (“City”) is interested in partnering with a qualified housing developer to create permanent supportive housing for residents who are experiencing homelessness or at risk of homelessness; and

WHEREAS, in July 2020, the State of California Housing and Community Development Department (“HCD”) created the State Homekey Program and issued its first Notice of Funding Availability (“NOFA”) to fund the conversion of existing residential buildings, such as hotels, motels, other residential buildings and non-residential structures, to permanent supportive housing for residents who are homeless or at risk of being homeless; and

WHEREAS, in anticipation of HCD issuing a third Homekey NOFA, Council approved consideration of up to \$8.5M for one future Homekey project on September 13, 2022 and authorized issuing a Request for Proposals (RFP) to solicit proposals for Homekey-eligible projects, which the City issued on November 29, 2022 and subsequently received two proposals; and

WHEREAS, Housing Consortium of the East Bay (HCEB) and Memar Properties, Inc. (Memar) requested \$8,500,000 in City funds to support the conversion of the University Inn to permanent supportive housing; and

WHEREAS, the City currently leases the University Inn as an emergency shelter, and the lease is set to expire on October 31, 2023; and

WHEREAS, HCEB and Memar requested an additional \$1,000,000 to continue to operate the emergency shelter from the lease expiration to the property’s conversion to permanent supportive housing.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that Council approves \$8,500,000 in funding reservations from General Funds received pursuant to Measure P Allocation for the University Inn Homekey project.

BE IT FURTHER RESOLVED that \$1,000,000 shall be reserved from General Funds pursuant to Measure P Allocation for the University Inn emergency shelter operations.

BE IT FURTHER RESOLVED that that funds shall be reserved for a period of no more than 12 months from the date of this Resolution, contingent on the development team obtaining all required land use approvals and securing commitments for project funding that the City Manager or her designee deems sufficient within the reservation period.

BE IT FURTHER RESOLVED that the making of each loan shall be contingent on and subject to such other appropriate terms and conditions as the City Manager or her

designee may establish, including the maximum developer fee of \$1,000,000 established in the RFP.

BE IT FURTHER RESOLVED the City Manager, or her designee, is hereby authorized to execute all original or amended documents or agreements to effectuate this action; a signed copy of said documents, agreements and any amendments will be kept on file in the Office of City Clerk.

RESOLUTION NO. ##,###-N.S.

JOINT APPLICATION FOR HOMEKEY FUNDS FOR THE UNIVERSITY INN
HOMEKEY PROJECT LOCATED AT 1461 UNIVERSITY

WHEREAS, the City of Berkeley (City) is considering a request for acquisition, development, and operation subsidies funding from Housing Consortium of the East Bay (HCEB) and Memar Properties, Inc. (Memar) related to the development of the University Inn Homekey project, located at 1461 University; and

WHEREAS, the State of California Housing and Community Development Department (Department) is expected to release a Notice of Funding Availability for Homekey funds in Spring 2023; and

WHEREAS, the City issued a Request for Proposals (RFP) on November 29, 2022 to solicit proposals for Homekey-eligible projects, and subsequently received two proposals; and

WHEREAS, the City selected the proposal submitted by HCEB and Memar based on careful review of the proposals, the projects' feasibility, applicant experience with the Homekey program, and an evaluation of development team capacity; and

WHEREAS, the City may be required to accept a portion of the project's liability as a condition of the joint Homekey application, though the risk may be mitigated by a side agreement negotiated between the City and HCEB and Memar.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that it approves the submission of a joint application with HCEB and Memar or their affiliate for the Homekey application for University Inn Homekey project.

BE IT FURTHER RESOLVED that the City Manager shall work to mitigate risk to the City from serving as a joint applicant, including negotiating an agreement with HCEB and Memar regarding mutual responsibilities.

BE IT FURTHER RESOLVED that the City Manager, or her designee, is authorized to execute in the name of Applicant the Homekey Program Application Package and the Homekey Program Documents as required by the Department for participation in the Homekey program.

BE IT FURTHER RESOLVED that the City Manager, or her designee, is hereby authorized to execute all original or amended documents or agreements to effectuate this action; a signed copy of said documents, agreements, and any amendments will be kept on file in the Office of the City Clerk.

RESOLUTION NO. ##,###-N.S.

RESOLUTION OF THE GOVERNING BODY OF CITY OF BERKELEY AUTHORIZING
JOINT APPLICATION TO AND PARTICIPATION IN THE HOMEKEY PROGRAM FOR
UNIVERSITY INN

WHEREAS, The Department of Housing and Community Development (“Department”) has issued a Notice of Funding Availability, dated _____, 2023 (“NOFA”), for the Homekey Program (“Homekey” or “Program”). The Department has issued the NOFA for Homekey grant funds pursuant to Health and Safety Code section 50675.1.3 (Assem. Bill No. 140 (2021-2022 Reg. Sess.), § 20.); and

WHEREAS, City of Berkeley (“Co-Applicant”) desires to jointly apply for Homekey grant funds with Housing Consortium of the East Bay and Memar Properties (“Corporation”). Therefore, Co-Applicant is joining Corporation in the submittal of an application for Homekey funds (“Application”) to the Department for review and consideration; and

WHEREAS, The Department is authorized to administer Homekey pursuant to the Multifamily Housing Program (Chapter 6.7 (commencing with Section 50675) of Part 2 of Division 31 of the Health and Safety Code). Homekey funding allocations are subject to the terms and conditions of the NOFA, the Application, the Department-approved STD 213, Standard Agreement (“Standard Agreement”), and all other legal requirements of the Homekey Program; and

WHEREAS, in anticipation of the Department issuing the NOFA, Council is authorizing an application for Homekey funds prior to the actual NOFA release.

NOW THEREFORE, BE IT RESOLVED that Co-Applicant is hereby authorized and directed to submit a joint Application to the Department in response to the NOFA, and to jointly apply for Homekey grant funds in a total amount not to exceed \$18,000,000.

BE IT FURTHER RESOLVED that if the Application is approved, Co-Applicant is hereby authorized and directed to enter into, execute, and deliver a Standard Agreement in a total amount not to exceed \$18,000,000, any and all other documents required or deemed necessary or appropriate to secure the Homekey funds from the Department and to participate in the Homekey Program, and all amendments thereto (collectively, the “Homekey Documents”).

BE IT FURTHER RESOLVED that Co-Applicant acknowledges and agrees that it shall be subject to the terms and conditions specified in the Standard Agreement, and that the NOFA and Application will be incorporated in the Standard Agreement by reference and made a part thereof. Any and all activities, expenditures, information, and timelines represented in the Application are enforceable through the Standard Agreement. Funds are to be used for the allowable expenditures and activities identified in the Standard Agreement.

BE IT FURTHER RESOLVED that the City Manager or her designee is authorized to execute the Application and the Homekey Documents on behalf of Co-Applicant for participation in the Homekey Program.

BE IT FURTHER RESOLVED that the City Manager or her designee is authorized to include the issuance date of the NOFA, once available, in the resolution.

