



Office of the City Manager

CONSENT CALENDAR
July 11, 2017

To: Honorable Mayor and Members of the City Council
 From: Dee Williams-Ridley, City Manager
 Submitted by: Paul Buddenhagen, Director, Health, Housing & Community Services
 Subject: Housing Trust Fund Recommendation – Northern California Land Trust (NCLT) Scattered Site Rehabilitation

RECOMMENDATION

Adopt a Resolution reserving funds for Northern California Land Trust's Scattered Sites rehabilitation, specifically by:

1. Waiving Section III.A.1 of the Housing Trust Fund (HTF) Guidelines and accepting NCLT as an eligible developer despite its lack of recent experience.
2. Adopting a finding that a City subsidy in excess of 40% of total development costs is justified by the nature of Northern California Land Trust's Scattered Site Rehab and unavailability of alternative funding, as required by the HTF Guidelines, Section V.B.7.
3. Approving a HTF reservation for Northern California Land Trust's Scattered Site Rehab project, in the amount of \$569,692.
4. Authorizing City Manager to refinance the Scattered Site Rehab properties' outstanding HTF loans, with a combined balance currently estimated at \$695,000, into the new development loan with terms consistent with the HTF Guidelines.
5. Authorizing the City Manager to execute all original or amended documents or agreements to effectuate these actions.
6. Recommending that Council recommend to the Northern California Land Trust that the organization move towards establishing a Board of Directors' structure consistent with current community land trust model standards.

FISCAL IMPACTS OF RECOMMENDATION

The HTF balance is currently approximately \$3.6 million. If the Council approves funding for both SAHA's Harper Crossing (an item expected for tonight's Council agenda as well) and this proposal, there will be approximately \$2.75 million remaining.

CURRENT SITUATION AND ITS EFFECTS

At its June 1, 2017 meeting, the Housing Advisory Commission supported the staff and HAC HTF Subcommittee recommendations for the Scattered Site Rehab, listed above.
 Action: M/S/C (Martinucci/Amezcuca) Ayes: Amezcuca, Johnson, Lord, Martinucci, Slaughter, Tregub, and Vasquez. Noes: None. Abstain: Lewis. Absent: None. Recused: Wolfe.

Staff have been working with Northern California Land Trust (NCLT) since their funding request in the 2015 Request for Proposals process for a four-property Scattered Site Rehab project. Although staff and the HAC had concerns about providing the development funds requested at that time, at the HAC's recommendation, City Council directed staff to continue to work with NCLT on a revised proposal for renovating up to two of their existing properties. NCLT put together a predevelopment loan proposal and the City Manager approved a \$50,000 predevelopment loan in October 2016 to refine a revised proposal for a Scattered Site Rehab of two existing NCLT properties: 1340-48 Blake Street and 2425 California.

Since then, staff worked closely with NCLT as they undertook additional analysis of the properties and rehabilitation needs with several consultants. Subsequently, NCLT requested a development loan of up to \$569,692 to address the major systems of both properties and other priority needs. Staff and the HAC recommend funding the full request of \$569,692 for a total HTF commitment of \$619,692 including the current predevelopment loan amount. Funding at this level would support repairs to the building envelope, energy efficiency upgrades, new electrical subpanels, and structural renovations, including repairing the elevated walkway at California Street to bring it into compliance with the City's Elevated Exterior Elements (E3) program.

BACKGROUND

NCLT is a small organization with four employees, all part-time. NCLT has included several items in their proposed scope of work to increase their capacity to complete the proposed project. First, NCLT plans to hire DRB Associates, a professional project management firm, as a third-party construction manager for the duration of the project. Second, NCLT budgeted for project management, which would either cover the cost of increasing the hours of existing, or hiring a third-party consultant.

NCLT has not met the developer eligibility threshold in Section III.A.1 of HTF Guidelines in terms of projects completed in the last 3-5 years. Because NCLT's performance with the predevelopment loan and recent rehabilitation experience seem indicative of adequate capacity to complete the proposed project, staff believe NCLT, with the consultants mentioned above, can complete the proposed scope and recommend that Council waive that eligibility requirement with the attached reservation.

NCLT's board of directors consists of just five members and does not have a typical community land trust tripartite structure including residents, community members, and members representing the public interest. NCLT staff report they are actively seeking new board members in an effort to achieve that standard. The Housing Advisory Commission recommended that Council advise NCLT to move towards the tripartite board structure. Staff agree with the Commission's recommendation, since adopting a more diverse board is an organizational best practice, and recognize that recruiting and retaining qualified board members is a challenging endeavor.

Financially, NCLT has remained in a weak position since its 2011 bankruptcy. Audited and unaudited financials from the past few years indicate that NCLT is making an effort to improve its financial standing, but the organization has a negative net worth and is vulnerable to increases in expenses and decreases in fundraising and cash flow. There is a risk that the organization will not continue to exist for the 55-year regulatory period, but staff and the HAC also recognize the current needs of the occupied properties.

The City's loan would be over \$56k per unit for the full request, and the City's total subsidy would be 46.7% of the \$1.325 million total development cost. NCLT's proposal exceeds the HTF Guidelines' maximum City subsidy of 40%, so if recommended for funding, Council would need to make a finding that the higher subsidy is justified by the nature of the project and unavailability of alternative funding. The small size and low rents at these projects make accessing public programs and conventional debt difficult.

The City has existing loans on Blake (\$150k) and California (\$200k). The Blake loan matured in 2014, but NCLT does not have the resources to repay the loan at this time without major financial impacts to the organization and to the operation of the property. The California loan doesn't mature until 2024, but it carries 6% interest, twice the current HTF standard. Staff recommend that the outstanding principal and interest on both loans, estimated at \$695,000 in May 2017, plus the predevelopment principal and interest, be rolled into the new development loan. Refinancing the loans will benefit the long-term operation of the projects and will extend the affordability by 55 years. Including the proposed refinance, the City's subsidy would be closer to 65%.

ENVIRONMENTAL SUSTAINABILITY

NCLT's renovations are expected to improve the energy efficiency of the buildings by nearly 40%. Both properties are located in walkable areas well served by public transit.

RATIONALE FOR RECOMMENDATION

NCLT's properties have limited cash flow, and significant renovation needs. It is unlikely that NCLT would be able to complete the proposed renovations without City support in the foreseeable future. NCLT's proposed project will also meet community objectives, by improving the existing housing stock and preserving 11 existing affordable housing units. The units house a total of 24 residents, whose incomes range from 3% to 56% of the area median income. Addressing the major capital needs should allow Blake and California to build up their reserves in anticipation of future repair and replacement costs. Both NCLT and the existing low-income tenants should benefit from lower utility costs due to the energy efficiency upgrades. The renovations will also include repairs to an elevated walkway at California, and bring it up to the standards of the City's E3 program.

ALTERNATIVE ACTIONS CONSIDERED

The staff and the HAC considered not funding the loan request due to concerns about NCLT's capacity. Both staff and the HAC recognized that the needed rehabilitation was unlikely to be completed without City participation, and that its completion will improve the living environment of 11 households and support the continued availability of these affordable homes. The development team assembled for this project as well as the City's loan conditions and involvement will help ensure appropriate use of City funds.

CONTACT PERSON

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

Attachments:

1: Resolution

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

APPROVAL OF HOUSING TRUST FUND RESERVATIONS

WHEREAS, the City Council established a Housing Trust Fund Program (HTF) to assist in the development and expansion of housing affordable to low and moderate income persons who either work or reside within the City of Berkeley, and authorized the City Manager to implement the Program; and

WHEREAS, there is a great need for affordable and special needs housing in the City of Berkeley as stated in the General Plan Housing Element and the City of Berkeley's Consolidated Plan; and

WHEREAS, Northern California Land Trust (NCLT) applied for funding through the City's 2015 Request for Proposals process for a four-property scattered site renovation project; and

WHEREAS, at its June 23, 2015 meeting, due to concerns about the initial proposal's feasibility, City Council directed staff to work with NCLT on a revised renovation proposal limited to two NCLT properties; and

WHEREAS, in April 2017, NCLT submitted a \$569,692 funding request and revised proposal for the Scattered Site Rehab project, which includes renovations to 1340-48 Blake Street and 2425 California Street, two of NCLT's existing properties; and

WHEREAS, at its June 1, 2017 meeting, the Housing Advisory Commission approved a motion recommending an HTF funding reservation for the Scattered Site Rehab; and

WHEREAS, the Housing Advisory Commission expressed concern that NCLT does not currently have a tripartite board of directors (1/3 residents, 1/3 community members, 1/3 representing the public interest), which is the recommended structure for community land trusts; and

WHEREAS, although NCLT does not technically meet the developer threshold in Section III.A.1 of the Housing Trust Fund Guidelines, the organization has demonstrated sufficient experience and capacity to complete the project; and

WHEREAS, both the City's and NCLT's interests are best served by authorizing a waiver of the Housing Trust Fund Guidelines allowing HTF funds in excess of 40% for the Scattered Site Rehab.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that it approves the following HTF funding reservation:

- Northern California Land Trust's Scattered Site Rehab: \$569,692 for renovations at 1340-48 Blake Street and 2425 California Street including structural and energy efficiency upgrades.

BE IT FURTHER RESOLVED that the Council of the City of Berkeley waives the requirements of Section III.A.1 of the Housing Trust Fund Guidelines and approves NCLT as an eligible developer with demonstrated capacity to complete the Scattered Site Rehab, though it has not completed the number of projects required by the developer eligibility criteria.

BE IT FURTHER RESOLVED that the Council of the City of Berkeley waives the requirements of Section V.B.7. of the Housing Trust Guidelines and approves HTF funds in excess of 40% for the Scattered Site Rehab due to the nature of the development and the unavailability of alternative financing.

BE IT FURTHER RESOLVED that the Council of the City of Berkeley authorizes the City Manager to refinance the Scattered Site Rehab properties' outstanding HTF loans, with a combined balance currently estimated at \$695,000, into the new development loan.

BE IT FURTHER RESOLVED that the Council of the City of Berkeley recommends that NCLT move toward a Board of Directors structure consistent with community land trust standards.

BE IT FURTHER RESOLVED that all funding reservations are conditioned upon the completion of the environmental review process, except as authorized by 24 CFR, Part 58, and that should HOME and/or CDBG funds constitute a portion of the funding for any project, a final commitment of HOME and/or CDBG funds shall occur only upon the satisfactory completion of the appropriate level of environmental review and also upon the receipt of approval of the request for release of funds and related certification from the U.S. Department of Housing and Urban Development, when applicable. The funding reservation for any of the HOME and/or CDBG funded projects is conditioned upon the City of Berkeley's determination to proceed with, modify, or cancel the project based on the results of subsequent environmental review under the National Environmental Policy Act.

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.