



Office of the City Manager

CONSENT CALENDAR
March 10, 2020

To: Honorable Mayor and Members of the City Council
 From: Dee Williams-Ridley, City Manager
 Submitted by: Kelly Wallace, Interim Director, Health, Housing, and Community Services
 Subject: Acquisition and Predevelopment Loan for 1740 San Pablo Avenue

RECOMMENDATION

Adopt a Resolution to:

1. Authorizing the execution of a \$7.1 million loan to BRIDGE Housing Corporation (BRIDGE) for costs related to acquisition and predevelopment of the proposed affordable housing development at 1740 San Pablo Avenue.
2. Authorizing the City Manager to execute all original or amended documents or agreements to effectuate this action.

FISCAL IMPACTS OF RECOMMENDATION

On December 10, 2019, City Council reserved \$7.5 million in Measure O Bond funds with Resolution 69,231. This action would not change the amount of the existing reservation, but would allow the City to disburse up to \$7.1 million before other project funding is secured.

CURRENT SITUATION AND ITS EFFECTS

In January 2020, BRIDGE requested that the City enter into a loan for up to \$7.1 million to support acquisition and predevelopment activities. Council's December 2019 funding reservation for 1740 San Pablo was conditioned on BRIDGE securing entitlements for all financing within twenty-four months. In its application for City funds, BRIDGE estimated construction start in late 2020, which appeared feasible due to existing entitlements and a plan to pursue state funding in early 2020.

In order to move forward with developing 1740 San Pablo as affordable housing, BRIDGE needs to revise its funding strategy. This is common in affordable housing development, since projects compete statewide for limited pools of funds. Each funding source carries specific requirements for affordability and priorities for serving different populations (i.e. formerly homeless, families, disabled, seniors), and projects often adjust their proposed income limits and targeted populations to maximize their competitiveness. BRIDGE is considering multiple strategies, including designating units for large families, seniors, or special needs households. BRIDGE indicated a desire to

maintain several units for artists, if possible. The project is unlikely to include moderate income units as originally proposed, since most affordable housing sources are geared towards 100% affordable projects with units restricted at or below 80% AMI, and are often restricted at or below 60% AMI. For reference, 60% AMI for a single person is approximately \$52,080, and 80% of AMI for a family of four is approximately \$99,120.

BRIDGE initially proposed applying for funds through CalHFA's new Mixed Income Program (MIP), which is designed to support projects that included a mix of affordable units and moderate income units up to 120% of the area median income (AMI). The state set aside \$200 million in tax credits to pair with the new program. Demand for MIP funding is high, and nearly all of the state tax credits were depleted in the first round. Without state credits, BRIDGE cannot make the project work with MIP funds. BRIDGE faces an additional complication, since the census tract in which the project is located lost its 'difficult to develop area' (DDA) status as of January 2020. Projects in DDA census tracts are eligible for a more tax credits.

BRIDGE anticipates that the revisions needed for financing will require changes to the existing approved use permit. The project will likely not be able to accommodate the live-work spaces, but BRIDGE hopes to provide ground floor commercial or studio space for artists. Depending on the final funding strategy and designated population, BRIDGE may reconfigure the residential space to increase unit sizes or may increase the overall number of units. BRIDGE does not plan to decrease the overall number of units, in part because a smaller project would be less competitive for funding. Based on conversations with Planning Department staff, BRIDGE believes that the project is well suited for expedited entitlements under SB35.

Developing a new funding strategy and re-entitling the property will extend the project's schedule. BRIDGE is in contract to acquire 1740 San Pablo and can get a bank loan for the acquisition, but the loan will have a higher interest rate than a City loan, and will add to the overall costs of the project. The City can enter into a development loan for up to \$7.1 million, and condition it on BRIDGE getting the project re-entitled, if needed, and fully funded within five years. Generally, changing a loan from a development loan to an acquisition and predevelopment loan increases the level of risk for the City, since there is less assurance that the project will move forward than loans made at construction start. In this case, the developer's capacity and track record and recording the City's Deed of Trust on the property all mitigate the risk to City funds and support the recommended action. The City will condition its loan on receipt of an appraisal that supports the purchase price. Once BRIDGE has secured all project funding and entitlements, the City will amend the loan so BRIDGE can access the remaining \$400,000 of the funding reservation for the development of the project. BRIDGE is pursuing funding options that will keep the total City subsidy at \$7.5 million, but changes to the project may still result in a gap and a future request for additional City funding.

Supporting 1740 San Pablo with acquisition and predevelopment funding is a Strategic Plan Priority Project, advancing our goal to create affordable housing and housing support service for our most vulnerable community members.

BACKGROUND

BRIDGE applied for funding through the 2019 Housing Trust Fund Request for Proposals. The project was proposed as a mixed income project, with 45 units for households earning between 30% and 80% AMI, five units for households earning up to 90% AMI, and one manager's unit. The initial proposal also included three live-work spaces for artists.

The City typically provides two types of loans through the Housing Trust Fund: 1) predevelopment loans that are short-term (five years) and allow developers to assess project feasibility to better position the project to pursue competitive funding at the state level; and 2) development loans that are longer term (55 years), and are closed after all other funding is secured, just prior to construction start.

ENVIRONMENTAL SUSTAINABILITY

BRIDGE intends to construct 1740 San Pablo to third-party green building standards, and will seek GreenPoint Gold certification.

RATIONALE FOR RECOMMENDATION

1740 San Pablo meets local needs and priorities by adding at least 50 new units of affordable housing to the City's inventory. The City loan has a lower interest rate than a conventional acquisition loan, and will reduce carrying costs as BRIDGE pursues other project financing.

ALTERNATIVE ACTIONS CONSIDERED

If the City's funds are not available to support acquisition and predevelopment costs, BRIDGE may decide not to move forward with the project due to the higher carrying costs of a bank acquisition loan, and the City would lose 50 units of affordable housing from its projected pipeline.

CONTACT PERSON

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

Attachments:
1: Resolution

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

AUTHORIZATION FOR A \$7.1 MILLION LOAN FOR 1740 SAN PABLO

WHEREAS, the City Council established a Housing Trust Fund (HTF) program 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 HTF 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, on November 6, 2018, Berkeley voters passed Measure O, a \$135 million bond measure to support the development and preservation of affordable housing; and

WHEREAS, on June 11, 2019 the City Council approved issuing a Request for Proposals (RFP) through the HTF program to allocate the first issuance of Measure O bond funds; and

WHEREAS, BRIDGE Housing Corporation (BRIDGE) submitted a proposal through the RFP requesting \$7.5 million in City funds for the development of 1740 San Pablo Avenue; and

WHEREAS, on December 10, 2019, the City Council reserved \$7.5 million to 1740 San Pablo, conditioned on BRIDGE securing all entitlements and project funding within two years of the reservation; and

WHEREAS, BRIDGE's initial funding strategy is no longer viable, and BRIDGE is considering funding options that will change the targeted population and income mix of the development; and

WHEREAS, in January 2020, BRIDGE requested that the City consider entering into a loan before the project was fully funded in order to support acquisition and predevelopment activities and to reduce carrying costs.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the Council authorizes a loan to BRIDGE Housing Corporation for 1740 San Pablo to allow for the disbursement of up to \$7.1 million to support acquisition and predevelopment costs.

BE IT FURTHER RESOLVED that the loan will be conditioned on BRIDGE securing entitlements and full project funding within five years.

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BE IT FURTHER RESOLVED that the City may amend the loan to include the full \$7.5 million reservation after BRIDGE secures all entitlements and project funding.

BE IT FURTHER RESOLVED that BRIDGE shall make its best effort to include residential units for artists, and commercial or studio space for artists if financially feasible.

BE IT FURTHER RESOLVED that the funding reservation is conditioned upon the completion of applicable state and federal environmental review processes, except as authorized by 24 CFR, Part 58, and that should HOME and/or CDBG funds constitute a portion of the funding for the 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 a HOME and/or CDBG funded project 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 that the making of the loan shall be contingent on and subject to such other appropriate terms and conditions as the City Manager or her designee may establish.

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.

