



Office of the City Manager

ACTION CALENDAR
September 27, 2016

To: Honorable Mayor and Members of the City Council
 From: *DWR* Dee Williams-Ridley, City Manager
 Submitted by: Paul Buddenhagen, Director, Health, Housing & Community Services
 Subject: Proposed Development for 2012 Berkeley Way and Reservation of Housing Trust Funds for Predevelopment Loans

RECOMMENDATION

1. Provide direction to staff on the priorities for the development of 2012 Berkeley Way, including priorities for public parking; and
2. Adopt a Resolution reserving \$835,897 in Housing Trust Funds (HTF) for a predevelopment loan for BRIDGE Housing Corporation's proposed development at 2012 Berkeley Way.

SUMMARY

This report details BRIDGE and the Berkeley Food and Housing Project's (BFHP) proposal to develop 2012 Berkeley Way as affordable housing, permanent supportive housing, transitional housing/homeless services space, and public parking in response to its Memorandum of Understanding with the City. Staff is seeking Council direction on project priorities.

BRIDGE submitted one of two applications for predevelopment funding received in response to the City's Notice of Funds Available (NOFA), a request for \$3,236,446. The other application, for \$25,000 for Satellite Affordable Housing Associates' Oxford Street Apartments, was supported by the Housing Advisory Commission at its July 7, 2016 meeting and has already been approved by the City Manager. Staff and the Housing Advisory Commission (HAC) recommended the predevelopment funding for both projects, and the City Manager has already approved the loan for Oxford Street Apartments.

FISCAL IMPACTS OF RECOMMENDATION

If Council adopts a reservation of predevelopment funding for Berkeley Way, the funds will come from the HTF (258-8151-465-99-22 and 249-8151-465-99-22). While the City would only be committing predevelopment funds at this time, if the project is to be completed, it will require a substantial commitment of City funds to help fill a significant funding gap in addition to the value of the land, which the City agreed on May 31, 2016 to lease for \$500 each for the three residential components. After accessing other

major funding sources, the remaining funding gap could total \$20 million or more for housing uses, plus an additional \$1.8 to \$4 million or more for public parking, which would need to come from local sources. In addition to the City's Housing Trust Fund, local sources could also include Alameda County or other cities. If BRIDGE is able to obtain all permits and funding, including Low Income Housing Tax Credits, in 2017, the project will access another \$5 million in tax credit equity, reducing the gap for loan funds to fill.

CURRENT SITUATION AND ITS EFFECTS

Under their Memorandum of Understanding with the City, BRIDGE Housing Corporation (BRIDGE) and the Berkeley Food and Housing Project (BFHP) submitted a proposal to the City for a proposed project at 2012 Berkeley Way with four components: affordable housing, permanent supportive housing, transitional housing/homeless services space, and public parking. While all the components would be designed and developed together, they would be separately financed, owned, and managed.

The proposed project includes 124 affordable apartments, 60 shelter beds, homeless service space, and an estimated 75 to 150 public parking spaces in a six story building with one to two levels of underground parking. The four components are described in more detail below:

Affordable housing development. BRIDGE proposes to develop and manage 94 studio, 1-, and 2-bedroom apartments affordable to households at 30% to 60% of area median income in a six-story building. No residential parking is proposed due to the proximity to transit downtown and the cost of providing underground parking.

Key funding sources include federal low income housing tax credits, tax exempt bonds, and the California Affordable Housing and Sustainable Communities (AHSC). The total development cost is estimated at \$39M, with a gap proposed to be filled by City or County funds at \$12M, or \$126,000 per unit.

BRIDGE also submitted a smaller alternative to the City: 68 units with a different financing mix. The alternative funding requires a different unit mix and affordability requirements, which reduce the number of units that fit and the amount of rental income which can support debt. The resulting project would require 10% fewer local funds (\$1M less) but provide 28% fewer units. Considering the housing affordability crisis, staff agree with BRIDGE that the lost units offset the benefit of a reduced gap at this point; this could be reevaluated as the financing process proceeds.

Permanent supportive housing development (BFHP permanent). The team proposes 30 studio apartments for formerly homeless adults connected with BFHP services. It would be in the same building as the transitional housing and service space, 6 stories tall and adjacent to BRIDGE's affordable housing component, and called the "Hope Center." Since the future tenants will have extremely low incomes, the project's

proposed financing combines three types of operating subsidies, including project-based Section 8, and a \$2.3M capitalized operating deficit reserve (essentially a savings account that would be spent down over about 17 years depending on the continued availability of other subsidies). Securing these will add to the complexity and time required to assemble financing. With a total development cost of \$12M, this component would have a gap proposed for City and County funds to fill of \$2M or \$69,000 per unit.

Temporary housing and homeless services space (BFHP temporary). The Hope Center is also proposed to consolidate BFHP's Men's Shelter (now in the Veteran's Building), coordinated entry hub, meal program, and administrative offices, adding 10 new temporary housing beds for a total of 60. The proposed square footage (24,330) is a 66% increase over the current space for these uses (14,618). These uses do not generate income so they cannot support any debt, so financing relies on several sources including a \$2.6M BFHP capital campaign. The proposed local funding gap is \$6M. The sponsors believe the Cities of Emeryville and Albany could provide some of the local funding.

Public Parking. The City's existing parking lot has 112 parking spaces. BRIDGE/BFHP propose providing no resident parking and one level of underground public parking, which would result in a local funding gap of about \$1.8M after obtaining a loan on the parking revenue. The team's original proposal achieved 112 spaces on one level through the use of parking lifts. More refinement of this plan is necessary, but it appears that number of spaces feasible on one level may be less than 80 due to the City's policy against using lifts for unstaffed public parking, structural and architectural requirements for columns and utilities that would reduce the number of spaces, the costs associated with staffed parking, and requirements for additional aisle and turning space. BRIDGE estimates that adding an additional level of parking would increase the total cost by \$5M, which could be partially offset by the increase in revenue from the additional spaces. Possible sources to fill the resulting gap are in-lieu parking fee revenue and the parking mitigation fees owed to the City by Berkeley Community College.

Staff is requesting more direction from Council on the amount of public parking desired from the project. More refinement of the parking feasibility and financing is needed. At this point, it appears that the options are either:

1. One level of parking with approximately 75 spaces with a need for about \$1.8 million in City funding; or
2. Two levels of parking with approximately 150 spaces with a likely need for more than \$3.6 million in City funds.

On June 8, 2016, the City entered into a Disposition and Development Agreement (DDA) with BRIDGE Housing, giving them site control for the purpose of applying for a tax exempt bond allocation in order to retain a certain status for the site that could

ultimately yield an additional \$5M in tax credit equity. Taking advantage of this status will require BRIDGE to obtain all of the financing and permits in 2017. The figures above and in the table below do not include the additional \$5M in tax credit equity, which would reduce the gap on the affordable housing and permanent supportive housing components combined by about \$5M.

The following table shows the projected gap for permanent financing:

Component	Units/ spaces	Total development cost	Gap – proposed for County and City funding	Gap per unit
Affordable housing	94	38,941,045	11,904,749	\$126,646
Permanent supportive housing	30	12,024,014	2,075,958	\$69,199
Temporary housing & support services space	60	11,229,517	6,068,814	Not calculated since includes service space and beds
<i>Subtotal - housing uses</i>		<i>62,194,576</i>	<i>20,049,521</i>	
Public parking - proposed	One level	3,600,000	1,850,000	

Note: If BRIDGE is able to assemble all of the financing and obtain permits by 2017, the gap for the affordable housing and permanent supportive housing could be reduced by \$5 million due to tax credit program changes detailed in the May 31, 2016 staff report.

Staff and the development team presented this proposal to the Homeless Commission at its June 8 meeting and the HAC at its July 7 meeting. The Homeless Commission indicated interest in staying informed about the project and did not take action. The Housing Advisory Commission voted “to support the project in concept, as presented”. HAC would like this project to be a high priority for the City. The HAC believes one level of public parking is “sufficient replacement parking.” Vote: Ayes: Abramson, Aguilar-Canabal, Darrow, Martinucci, Soto-Vigil, and Tregub. Noes: None. Abstain: None. Absent: Crandall (excused), Berg. Recused: Wolfe.

In response to the City’s Notice of Funds Available (NOFA) for HTF predevelopment loans in April 2016, BRIDGE submitted an application for \$3,236,446 in predevelopment loan funds. The Housing Trust Fund currently contains about \$1 million. This reflects the \$1.17M previously reported to Council, less 10% of Affordable Housing Mitigation Funds received to support program staff and less about \$56,000 for renewed annual operating support for SAHA and Resources for Community Development (RCD), recommended by the HAC at its July 2016 meeting.

Staff reviewed applications and met with the Housing Advisory Commission’s (HAC) Housing Trust Fund (HTF) subcommittee on June 29, 2016 and the HAC on July 7,

2016. The HAC agreed with the staff and HAC HTF subcommittee funding recommendation of \$835,897 in predevelopment funding, which is the amount of funding BRIDGE projects it will need through March 2017. Vote: Ayes: Abramson, Aguilar-Canabal, Darrow, Martinucci, Soto-Vigil, and Tregub. Noes: None. Abstain: None. Absent: Crandall (excused), Berg. Recused: Wolfe.

Costs through March 2017 include largely architecture and engineering, planning fees and environmental studies, and legal costs. It is unlikely that there will be enough funding (with the City's combination of HOME funds and mitigation fees) to support a project at the proposed scale if the proposed Alameda County housing bond and a business license tax are not adopted by voters in November. Funding work through March 2017 would support the project to get started on the aggressive timeline proposed and allow time to learn the election results, and return to the HAC and Council with any additional funding request.

The only other predevelopment loan application received was from Satellite Affordable Housing Associates (SAHA) for \$25,000 for its Oxford Street Apartments. SAHA is exploring the development potential of 1601-1603 Oxford Street at the request of the property owner, All Souls Episcopal Parish (ASEP). ASEP has expressed interest in developing the site for affordable housing, possibly serving special needs or senior populations. This predevelopment loan will support studies required to assess the potential for development at this site. This loan was recommended by the HAC, and staff are moving forward with executing the loan.

Both loans will be provided at the HTF's standard terms for predevelopment loans: 3% interest, a five year term, secured on the work products (i.e. architectural plans and environmental studies), with no recourse to the borrowers. Typically the City rolls the balance on predevelopment loans into the 55-year permanent loan when a project moves forward.

BACKGROUND

The Council identified the proposed uses for 2012 Berkeley Way in 2013. At that time, staff concluded that the proposed uses would have a funding gap of \$4 to \$34 million (depending on the scale and composition of the project). In order to identify the best qualified team to analyze feasible options for developing the site, the City conducted a Request for Qualifications (RFQ) process and selected the team of BRIDGE and BFHP. The City entered into a Memorandum of Understanding with BRIDGE and BFHP in 2014, and they spent until February 2016 investigating the options. At its May 31, 2016 meeting, the Council approved an option for BRIDGE to lease the property if the project meets certain conditions, including defining a project that is satisfactory to the City.

The HAC HTF subcommittee asked for more information on the City's investment into the Oxford Plaza/David Brower Center project, which was completed in 2007. Oxford/Brower has some similarities to the proposed project because it was also on a City-owned parking lot, provided a City-owned parking garage, and had a relatively large scale (including 97 units of affordable housing). The City provided a total of \$12.2

million in financing for Oxford/Brower and provided the land for \$1. Of that, \$6.48 million went into the 97 apartments in Oxford Plaza from the Housing Trust Fund. The City loaned \$3.2 million of this total during the predevelopment period.

ENVIRONMENTAL SUSTAINABILITY

Oxford Street Apartments and Berkeley Way are both proposed as affordable infill housing, which are typically regarded as more sustainable forms of development. BRIDGE has expressed its commitment to attaining LEED Gold or higher or the equivalent at Berkeley Way, consistent with the City priorities in the RFQ.

RATIONALE FOR RECOMMENDATION

The proposed Berkeley Way development addresses the four priorities first identified by Council for redevelopment of the site in 2013. Since 2013, the need for affordable housing, permanent supportive housing, and homeless services has grown locally. Developing the site to its fullest potential, as proposed, leverages this City-owned opportunity site to address local needs. BRIDGE has the necessary experience to develop a project at this scale and complexity.

While such a deeply affordable project at this scale will require the significant investment of City resources and preclude funding other development projects in the near term, it may be possible to assemble the funding needed from a combination of impact fees, federal funds, revenue from an increased business license tax as proposed on the November ballot, and the contribution of County bond funds if the Countywide bond measure passes in November.

ALTERNATIVE ACTIONS CONSIDERED

The City could fund a smaller portion of predevelopment costs at Berkeley Way and require BRIDGE to take more risk. The predevelopment loan will not pay for the staff time BRIDGE and BFHP are putting into the project. Council could also wait until November's election results are known, since the success or failure of the proposed business license tax increase measures and the Countywide bond fund measure will largely determine whether Berkeley Way may be feasible as proposed. With the need for immediate action due to the expedited timeframe BRIDGE is trying to meet to obtain additional tax credits and the project's potential to address critical needs locally, staff recommend proceeding with this initial infusion of funding.

CONTACT PERSON

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Attachments:

1: Resolution

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

RESERVING \$835,897 IN HOUSING TRUST FUNDS FOR A PREDEVELOPMENT LOAN TO BRIDGE HOUSING'S PROPOSED DEVELOPMENT OF 2012 BERKELEY WAY

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, on September 10, 2013, the City Council identified priorities for the development of the City-owned site at 2012 Berkeley Way, in use as a public parking lot; and

WHEREAS, on April 29, 2014 with Resolution 66,561-N.S., the City Council approved the issuance of a Request for Qualifications (RFQ) to identify a developer team qualified to develop the Parcel for uses consistent with the identified priorities; and

WHEREAS, on September 9, 2014 with Resolution 66,754-N.S., City Council approved the development team of the BRIDGE Housing Corporation and the Berkeley Food and Housing Project (BFHP) with their architect, Leddy Maytum Stacy Architects (LMSA), as the best qualified for the development of the Berkeley Way Parking lot, and authorized the City Manager to enter into an agreement with Bridge Housing to generate a proposal for development of the Parcel for uses consistent with the identified priorities, and the City entered into a Memorandum of Understanding on December 22, 2014; and

WHEREAS, on May 31, 2016 with Ordinance 7,479-N.S. and on June 14 with Ordinance 7,480 the City Council authorized a Disposition and Development Agreement with BRIDGE Housing for the Berkeley Way site; and

WHEREAS, on April 18, 2016, the City released a Notice of Funds Available for predevelopment funding from the Housing Trust Fund and BRIDGE submitted an application; and

WHEREAS, the Housing Advisory Commission reviewed the proposal and the staff's analysis on July 7, 2016 and agreed with the staff and Housing Trust Fund subcommittee recommendation to fund predevelopment costs at \$835,897.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that it approves the following for BRIDGE and BFHP's development of 2012 Berkeley Way:

- A reservation of \$835,897 in Housing Trust Funds for predevelopment costs of the proposed project.

BE IT FURTHER RESOLVED that the funding reservation is 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 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.