



Office of the City Manager

INFORMATION CALENDAR
January 29, 2019

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Jordan Klein, Economic Development Manager

Subject: Referral Response: Support for Berkeley Nonprofit Service Providers

SUMMARY

This report responds to referral #2017-29 adopted by City Council on December 13, 2016, and sponsored by Councilmember Worthington, to support Berkeley nonprofit service providers and organizations by examining methods to assist organizations in planning for capital renovation, rehabilitation and/or relocation.¹ Of Berkeley's nearly five hundred nonprofit organizations,² many lack affordable real estate in which to operate. This report reviews the City's current activities to assist nonprofit organizations to stabilize their real estate costs, and suggests additional strategies Council could consider, including technical and financial assistance, shared-space agreements, land use controls, and neighborhood land trusts.

CURRENT SITUATION AND ITS EFFECTS

The rise in real estate costs in the region has presented challenges for nonprofit community-based organizations. In some cases, nonprofit organizations face displacement because of upward pressure on commercial rents. For most nonprofits and service providers, the costs of simply maintaining space or saving for a modest capital improvement remains a persistent concern.³

The Office of Economic Development (OED) currently has two programs in place to support nonprofit organizations and service providers struggling with real estate issues, although neither of them are solely focused on assisting nonprofits with real estate retention or acquisition. Recipients of loans from the Revolving Loan Fund (RLF) may use the funds to underwrite tenant improvements, purchase real estate or otherwise support nonprofit organizations with respect to their real estate needs.⁴ Beginning in January 2019, OED is engaging Uptima Business Boot Camp to provide technical

¹ [City Manager Referral: Support Berkeley Non-Profit Service Providers to assist planning for capital renovation, rehabilitation and/or relocation](#), Action Calendar, Item 41, December 13, 2016.

² City of Berkeley, Department of Finance, Business License database, 2018.

³ Rauber, San Francisco Business Times, [Seven in 10 Bay Area nonprofits say skyrocketing real estate costs threaten their future here](#), March 2016.

⁴ For background on the RLF see: City of Berkeley, Office of Economic Development, [Revolving Loan Fund Report](#) and [Presentation](#) to the Berkeley City Council, July 18, 2017.

assistance services (including, as needed, real estate planning and assistance) directly to businesses and nonprofit organizations. The program aims to assist up to twenty Berkeley-based businesses and organizations over a period of two years.

In addition, the Department of Health, Housing, and Community Services (HHCS) oversees two programs to support nonprofit service providers with their real estate needs. HHCS manages seven on-going long-term leases directly to nonprofit service providers across five city-owned properties. This includes four license agreements with organizations located in the Veteran's Building (1931 Center Street), two service providers located at 701-11 Harrison Street (Harrison House), and the Women's Drop In Shelter located at 2213 Byron and 2218 Acton Street. The City's community agency funding program includes a small public facilities rehabilitation fund that is eligible to nonprofit service providers. In recent funding cycles, these monies have all gone towards property improvements at senior and assisted living facilities.

Council could consider the following programs and policies to better assist nonprofit organizations and service providers to meet their real estate needs, each of which would require the commitment of new resources for implementation:

- Provide increased **technical assistance** (education and/or case management) to nonprofit organizations to analyze an organization's financial position, negotiate a lease, develop a budget and scope for tenant improvements and/or assemble financing.
- Deploy **financial assistance** (grants or loans) directly to nonprofit organizations so they may secure real estate through purchase or long term lease.
- Encourage **shared space agreements** which allow multiple organizations to share the same roof, and potentially save on shared operations or staff.
- Enact **land use controls** to incentivize private developers to provide affordable spaces to nonprofit organizations in mixed-use developments.
- Support the use of **neighborhood land trusts**, wherein tenants (generally nonprofit organizations themselves) rent from a nonprofit entity bound by an affordability covenant.

BACKGROUND

There are approximately five hundred nonprofit organizations in Berkeley, working across a wide range of fields including health care, education, environmental protection, arts and culture, and beyond. Many of those organizations are direct service providers, providing human services such as mental health treatment, case management and referral, employment training, and legal representation. Other nonprofit organizations provide artistic, educational, and cultural programming that enrich the community.

Currently, many nonprofit organizations have one problem in common: a lack of affordable real estate in which to operate. This problem manifests in a variety of ways. Some organizations are ‘making do’ by operating in spaces that are too small or poorly maintained; in some cases, this impairs an organization’s ability to fully meet the needs of its clientele. Also, potential operational efficiencies that could strengthen an organization’s sustainability—such as property renovation, relocation to a more appropriate space, or co-location with like agencies—are rarely planned for due to lack of time, resources or expertise.

City Efforts, Past and Current

The City of Berkeley has historically helped to mitigate the displacement of nonprofit organizations by providing financial assistance, direct technical assistance, and leveraging public land and assets.

The City has on several past occasions assisted nonprofit organizations directly with financing assistance. The Citywide Loan Fund (CLF), now inactive, issued low interest, long-term loans directly from the General Fund for arts and nonprofit organizations. Past CLF recipients include the Aurora Theater, Freight and Salvage, and the Jazz School. All three organizations used CLF funds to purchase properties or invest in capital improvements to their buildings for improved operations. Although these loans produced positive outcomes for the organizations, they were challenging for the nonprofit organizations to collateralize and have been difficult for City staff to service. Two remaining CLF recipient organizations will continue to make payments to the City through the 2020s.

The Ed Roberts Campus, a universally designed, transit-oriented campus located at 3075 Adeline Street above Ashby BART Station in South Berkeley, opened in 2011. The City and BART, working with a broad partnership of nonprofits and development advisors, leveraged publically owned land and federal tax credit programs to create this nonprofit office center. The 86,000-square-foot building is now home to several nonprofit service providers, and offers fully accessible meeting rooms, a media resource center, a fitness center, a cafe, and a child development center.

As part the 1990 Downtown Plan, the City of Berkeley created a cultural density bonus, allowing developers in the Downtown area to build beyond what was allowed by existing zoning in exchange for the inclusion of cultural space within their developments. The definition of what constituted a “cultural facility” was not explicit and did not specify what percentage of the space had to host cultural uses, nor whether the developer was responsible for building out the cultural facility or if the burden lay with the tenant to finance improvements. The 2001 General Plan update provided greater clarity⁵ on these

⁵ City of Berkeley General Plan, Land Use Element Introduction, Policy LU-19, Downtown Arts Density Bonus: https://www.cityofberkeley.info/Planning_and_Development/Home/General_Plan_-_Land_Use_Element_Introduction.aspx .

points, and ultimately two buildings employed the Downtown arts/cultural density bonus in development and construction. The Gaia Building (2116 Allston Way) houses the Marsh Arts Center and Theater, and the Arpeggio Building (2055 Center Street) hosts the Bay Area Children's Theater in the Osher Studio on the ground floor. The cultural density bones was discontinued and superseded by the 2012 update to the Downtown Plan.

The City also offers ongoing low-cost or rent-free leases of City-owned facilities to eight different nonprofit organizations across five sites. The agreements are managed by the Real Property division of Public Works, in partnership with the Health Housing and Community Services Department.

OED administers the Revolving Loan Fund (RLF) Program; these loans are available to all Berkeley based businesses and nonprofits. RLF funds may be used for an organization's real estate acquisitions or tenant improvements as long as the site is located in Berkeley. As of December 2018, the RLF had 8 active loans, and a total of \$156,939 available for lending.

OED also manages the commercial listing service *Locate in Berkeley*, and refers nonprofit organizations to available spaces,⁶ relevant property owners, brokers, and developers. OED also helps nonprofit organizations navigate the permitting process once they have a site identified in Berkeley. Staff also periodically connects mission-driven organizations that may be interested in pursuing shared space agreements, and connects those groups with appropriate technical assistance providers.

In early 2019, OED is launching a new technical assistance program designed to assist small, locally-owned businesses and nonprofits that are at risk of displacement or closure, with a particular focus on independent retailers and organizations. Uptima Business Bootcamp will provide targeted assistance to up to 20 Berkeley businesses and nonprofits over two years, with the goal of increasing profitability and sustainability. Their services may include technical assistance related to real estate, depending on their client's stated need(s).

Northern California Community Loan Fund (NCCLF) is a leading provider of real estate consulting services for nonprofits in the Bay Area. NCCLF currently has grant funding from the Hewlett Foundation to provide limited consulting services to qualified nonprofit organizations in Berkeley and Oakland at no cost. Consulting services might involve analyzing an organization's financial position, negotiating a lease, developing a budget and scope for tenant improvements, and helping to assemble financing.

⁶ City of Berkeley, Office of Economic Development, *Commercial Space Available*: https://www.cityofberkeley.info/City_Manager/Economic_Development/Commercial_Space_Available.aspx.

Additional Strategies for Council Consideration

With the dedication of additional resources, the City of Berkeley could expand its support for Berkeley nonprofit service providers by pursuing the following strategies.

Provide comprehensive technical assistance to nonprofit organizations related directly to real estate. Technical assistance providers (often nonprofit organizations themselves) provide clear and actionable debt service plans to nonprofit boards, and assist in the preparation of pro forma spreadsheets to improve general budgeting and forecasting practices for less sophisticated nonprofit organizations. In some cases, these services are provided for free to the client organizations, with the costs covered by a City or foundation. NCCLF provided staff with a sample project scope for a nonprofit 'real estate readiness program' in the Silicon Valley (Attachment 1), which demonstrates what an expansion of these services in Berkeley might include.

Provide direct financial assistance to assist with real estate acquisition. Providing seed funding to help nonprofits acquire new, permanent space and to incentivize philanthropic investment from their own stakeholders or other funders is a proven technique to provide stability to a nonprofit organization. A City-administered grant program for capital planning could help nonprofit organizations to address urgent space needs by providing grants for one-time costs to cover architectural, engineering, and legal service fees; rent stipends; moving expenses; or furnishings, fixtures, equipment, and other tenant improvements. Effective tenant improvements can often incentivize landlords to extend long-term leases to the organization which in turn provides increased stability for nonprofit organizations and service providers. For example, the City and County of San Francisco's Nonprofit Sustainability Initiative offers approximately \$2.7 million in grants annually to help nonprofits purchase affordable and permanent space. The program assists approximately thirty social and arts organizations per year in San Francisco.⁷

Shared space agreements allow multiple organizations to share the same roof, and potentially save on shared operations or staff. As nonprofits evaluate shared space opportunities, and articulate a shared space vision, they can benefit from technical assistance counseling together. For example, San Francisco's Office of Economic and Workforce Development (OEWD) annually hosts cohorts of like-minded nonprofits to identify shared goals for the pursuit of space.⁸ The City of Edmonton (Alberta, Canada) administers an ongoing co-location initiative and has produced an informative toolkit to assist nonprofits in developing successful shared space arrangements.⁹ The program has two city staffers who manage the initiative and a consulting team comprised of three analysts.

⁷ *San Francisco Nonprofit Sustainability Initiative*: <https://www.ncclf.org/san-francisco-nonprofits-secure-long-term-leases-with-one-million-in-funds/>.

⁸ See NCCLF's real estate listing service *Spaces for Good* <https://www.ncclf.org/spacesforgood/> and OEWD's *Mayor's Nonprofit Sustainability Initiative*: <https://oewd.org/nonprofits-0>.

⁹ The City of Edmonton, Community Services Department, *Shared Space Feasibility Toolkit*, pages 2-5.

The replication of a similar program in Berkeley would require a dedicated City staff position, or funds for an outside contractor, to assist in the pursuit and development of shared space agreements, and serve as a single point of entry for all nonprofit real-estate related inquiries. The staffer or contractor could help match nonprofits with one another, technical assistance providers, real estate agents, developers, architects and other prospective partners. Given constraints—such as limited availability of office space in Berkeley, and limited resources for nonprofits’ capital investments—it would likely be difficult for this program to produce outcomes, and may be better pursued at the regional level.

Land use controls can incentivize private developers to provide permanent or long-term affordable spaces in mixed-use developments for nonprofit service providers and organizations. For example, a density bonus may be granted in specific zoning districts in return for offering office space below market rate directly to nonprofits and arts organizations. Cities such as Chicago, Los Angeles, San Francisco, and Oakland have used this approach with success.¹⁰

Finally, **neighborhood land trusts** are an emerging vehicle for preserving real estate space for nonprofit organizations and artists. A neighborhood land trust organization can acquire property and dedicate it for a public benefit use and thus insulate the institution from upward real-estate market pressure. This is similar to the broader land-trust model, often used for open space conservation or affordable housing development, wherein tenants generally rent from a nonprofit entity bound by an affordability covenant and are restricted from selling the property. This has been used to some success with artist collectives and mixed use buildings along Oakland’s waterfront.¹¹

To implement the neighborhood land trust approach in Berkeley, individual nonprofits seeking offices, gallery space, performance space, rehearsal space, and studio space would have to identify potential property owners that might be interested in the land trust model and proactively market to them. The City (or a vendor retained by the City) could also conduct a campaign to educate property owners of the tax and estate planning benefits associated with donating property to a land trust and/or create the marketing materials necessary to make clear what the benefits of donating property to a neighborhood land trust are and who would benefit.

ENVIRONMENTAL SUSTAINABILITY

Many of the City’s environmental sustainability goals are linked to the overall health of the City’s economy and specifically its nonprofit organizations. Thus, new programs to

¹⁰ City of Oakland, [Strategies for Protecting and Creating Arts & Culture Space in Oakland](#), spring 2016.

¹¹ Sam Lefebvre, [With Luxury Development on All Sides, Oakland Artists Buy the Right to Stay Put](#), KQED Arts Program, August 8, 2018.

improve the health of Berkeley's nonprofits could in turn contribute to achievement of the City's sustainability goals.

POSSIBLE FUTURE ACTION

Staff will, as directed by Council through future referral items, assist in further identifying effective technical and financial assistance programs and service providers related to this topic and direct implementation of such. If funding is allocated, staff will recruit vendors and manage programs to improve real estate-related outcomes for Berkeley's nonprofit organizations.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Based on best practice examples from Berkeley's neighboring communities, the establishment of an initiative to assist nonprofit service providers with capital planning, as described above, would require the dedication of between \$500,000 and \$1,000,000 annually. A more limited program, focused on expanding technical assistance and shared space agreements, could be implemented with less funding (approximately \$100,000 per year), but would be correspondingly limited in impact.

Actions that facilitate increased stability for nonprofit organizations would likely create or retain local employment in that sector, though they would likely have a neutral effect on property tax and other revenues.

CONTACT PERSON

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Attachments:

1: Sample Project Pricing and Scope for the *Silicon Valley Nonprofit Real Estate Readiness Program* from Northern California Community Loan Fund (NCCLF), 2018-19.

Attachment 1:

Sample Project Pricing and Scope for the *Silicon Valley Non-Profit Real Estate Readiness Program* from Northern California Community Loan Fund (NCCLF), 2018-19

Total Cost: a \$100,000 grant funded two years of the Real Estate Readiness Program for Silicon Valley nonprofits.

Scope includes:

- 3 workshops for the Real Estate Readiness curriculum
- Two years of one-on-one Technical Assistance counseling for 11 organizations.

Sample Scope of Work: **NCCLF Services.** *NCCLF will provide the following services (the “Services”) related to the Project:*

Nonprofit Displacement Mitigation Program Technical Assistance services, including the following as tasks as needed by Client:

1. *Financial planning*
2. *Space planning*
3. *Identifying and evaluating potential sites*
4. *Negotiating leases or purchase agreements*
5. *Developing construction budgets and project timelines*
6. *Analyzing potential funding sources.*

Technical assistance services may be provided on a one-to-one basis and/or in workshop settings. Disclaimer: the number of hours per the program are very specialized can be difficult to estimate in general terms.

Sample Rates: NCCLF Hourly Rates

Hourly fees are billed at the following rates. Rates are for 2018 – 2019 and are subject to change. 30 days in advance of any change in rates, NCCLF will provide Client a revised rate sheet in the format of the list below.

Director of Consulting Services	\$225/hour
Deputy Dir of Consulting Services, Real Estate	\$225/hour
Supervising Real Estate Consultant	\$195/hour
Senior Real Estate Consultant	\$195/hour
Real Estate Consultant	\$175/hour
Financial Management Consultant	\$175/hour
Real Estate Consulting Analyst	\$160/hour
NCCLF Administrative Support	\$100/hour