



Office of the City Manager

INFORMATION CALENDAR
February 13, 2024

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: Small Sites Program Update

INTRODUCTION

City Council approved the Small Sites Program (SSP) in 2018. As individual loan applications do not require Council approval, Council directed staff to provide the Housing Advisory Commission and Council with project updates. The Department of Health, Housing, and Community Services' Housing and Community Services Division (HHCS/HCS) shared an information report in December 2019, after the approval of the first SSP project – Stuart Street Apartments (1638 Stuart). This report includes an update on that development, as well as information on the second project awarded SSP loan funds, Solano Avenue Cooperative (1685 Solano).

CURRENT SITUATION AND ITS EFFECTS

Update on Stuart Street Apartments

The City issued its first SSP Notice of Funding Availability (NOFA) in 2019, and initially awarded \$1M to Bay Area Community Land Trust (BACLT) for the acquisition and renovation of Stuart Street Apartments (Stuart). This loan included \$50k in previously awarded predevelopment funds. Stuart consists of two buildings with a total of eight units on the property owned by McGee Avenue Baptist Church. BACLT partnered with the church to renovate both buildings, which had been vacant for over 20 years. Staff's project analysis was included in the 2019 SSP information report.

Due to the extremely poor condition of the buildings and inadequate initial estimates, BACLT requested additional funding from the City in 2020 and 2021 to support the renovation work. The attached Stuart project review reflects staff's analysis for adding \$1,052,500 to the project's SSP loan through the first and second amendments. The third amendment, to add \$50,000, was approved via a Council budget referral on November 3, 2022 and is not reflected in staff's 2021 underwriting. The total City loan for Stuart is \$2,102,500, or \$263k per unit.

Solano Avenue Cooperative

Health, Housing, and Community Services (HHCS) issued its second SSP NOFA in December 2020, and received one application from BACLT for the acquisition and

renovation of the Solano Avenue Cooperative project (1685 Solano). BACL T initially requested \$2,846,402 for Solano, but submitted a revised request for \$3.9M after reevaluating the scope and budget. This was the maximum subsidy for the 13-unit property allowed under the program. The previous owner transferred the property partially occupied and partially renovated. BACL T used the City funds for phased renovation of the residential units with common area upgrades, exterior repairs, and landscaping improvements.

Contingent upon resident support, BACL T intends to operate the property as a non-equity or limited-equity cooperative serving households earning up to 80% of the Area Medium Income, with shared responsibilities between the residents and BACL T. Berkeley Housing Authority awarded three project-based Section 8 vouchers to the project. BACL T completed renovations, and expects to be fully occupied by January 2024. The project ended up \$165k over budget, which BACL T addressed by deferring an equal amount of their developer fee, which they will collect over time, out of the project's cash flow.

Due to its length, the Solano application is available online at the following link: <https://berkeleyca.gov/sites/default/files/documents/Solano%20Avenue%20Cooperative%20SSP%20Application.pdf>. HCS staff's project review is attached.

BACKGROUND

The Small Sites Program was created in 2018 as an "over-the-counter" application process with projects approved by the City Manager. SSP proposals do not go to the Housing Advisory Commission or City Council for approval. Instead, projects that meet the program criteria receive funding, if funding is available.

There are no dedicated funds for the Small Sites Program; instead staff release NOFAs after Council allocates funds to the program. To date, HHCS/HCS released two SSP NOFAs, and received one application each time. If there were multiple proposals, staff would prioritize the application that best meets the goals of the Small Sites Program. The Small Sites Program Guidelines are posted on the City's website: <https://berkeleyca.gov/sites/default/files/2022-04/Housing-Trust-Fund-Guidelines.pdf>.

Renovations are inherently less predictable than new construction, as building deficiencies are often uncovered in the course of the project and may exceed the required construction contingency. To help mitigate the risk, the City requires SSP developers to hire third party construction managers if they cannot demonstrate sufficient in-house capacity. SSP projects require significant HHCS/HCS staff involvement, relative to new construction projects carried out by higher capacity developers with multiple other lenders and layers of oversight.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

BACLT acquired Solano partially renovated. The prior owner installed dual-paned windows, water-efficient plumbing fixtures, and bicycle parking. BACLT's renovations included energy efficiency upgrades, as was feasible.

POSSIBLE FUTURE ACTION

HHCS is not accepting applications for the Small Sites Program at this time since no funds are available. Council could allocate general funds to the Small Sites Program, or refer consideration of Housing Trust Fund program funding to the Housing Advisory Commission. Additionally, some aspects of the Small Sites Program have been incorporated into the Housing Trust Fund guidelines, so that source will work better for smaller sites.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

The number and size of feasible projects scale with the amount of funds available for this program, so the fiscal impacts will depend on Council's future actions. A significant expansion of funds available for small sites projects would require additional staffing, since the program anticipates an expedited timeline and requires close staff involvement.

CONTACT PERSON

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Attachments:

- 1: Stuart Project Review Form 2021-10-29
2. Solano Project Review Form 2022-01-13

Small Sites Program - Project Review

Applicant:	Bay Area Community Land Trust
Project Name:	Stuart Street Apartments
Project Address:	1638 Stuart Street
Funds Requested:	\$2,052,500

Project Summary:

This revised analysis reflects BACLT's August 2020 request for \$652,500 and October 2021 request for \$400,000 in additional project funding.

BACLT is renovating 8 residential units located at 1638 Stuart Street. The property is owned by McGee Avenue Baptist Church, and has been vacant for more than 20 years. The buildings were in poor condition, and if they continue to deteriorate beyond the point of repair, current zoning could limit replacement development to two units. BACLT entered into a 57 year lease with MABC to renovate the property and rent the 8 units to households earning up to 80% of the area median income. If there is sufficient interest amongst the future residents, BACLT intends to operate the property as a non-equity cooperative and encourage as much resident management as possible.

Program Objectives:

Are residents at imminent risk of Ellis Act evictions?	No
Is the property occupied?	No
Do the existing residents include vulnerable populations (i.e. families with minor children, elderly, disabled, and catastrophically-ill persons)? <i>If yes, describe vulnerable population, below.</i>	No
Property is vacant.	
Average AML of current residents:	n/a
Subsidy per unit:	\$ 256,563
Number of affordable units proposed:	8
Proposed conversion to cooperative?:	Yes

Developer Experience and Capacity

Developer must have completed one comparable project, and have the demonstrated capacity to undertake the proposed project.

BACLT has been involved with several renovations over the past few years, as the developer and co-developer. BACLT had a project management role in two renovations, which had a combined total development cost of \$350,000. BACLT most comparable project was an acquisition and renovation project with a budget of \$1.8 million, which BACLT co-developed with the San Francisco Land Trust. **The former Executive Director, who lead previous development efforts, retired in June 2021. BACLT is now relying on consultants for project and construction management.**

Stuart Street Apartments

Property Eligibility

Total number of units:	8
Do all residential units meet the City's definition of 'dwelling unit'?	Yes
Is the majority of the property residential?	Yes

Project Scope

Does the proposed renovation meet the health and safety needs of the project?	Yes
Is the renovation scope and budget supported by a physical needs assessment (PNA) of the property?	Yes

Project Budget

Is the proposed City loan leveraged with private financing?	Yes
Is the proposed per unit subsidy under the program limits?	Yes
Is the acquisition price substantiated by an appraisal showing both the fair market value and the anticipated restricted value?	n/a
Are fees charged to the project reasonable?	Yes
Is the developer fee less than the program limit of \$80,000 plus \$10,000 per unit, not to exceed 5% of project costs (excluding the developer fee)?	Yes
Are construction management fees less than \$25,500?	no
Does the renovation budget include state prevailing wage rates?	Yes
Construction contingency (must be 15% or higher)	7%
Soft cost contingency (must be 15% or higher)	6%
Do the reserves comply with the following?	
Operating: 25% of budgeted 1st year operating expenses	25%
Replacement: Greater of \$2,000 per unit or the amount necessary to pay replacement costs for the next 10 years, as specified in the PNA.	Yes - \$16k.
Vacancy: The monthly rent for units (residential and commercial) vacant at acquisition, multiplied by the number of months expected to remain vacant during renovation and lease-up.	No - \$24k reserve, equal to 1.9 months rent

Operating Proforma

Is there a positive cash flow for 15+ years after project completion?	Yes
Do the vacancy rates meet or exceed program requirements (5% residential, 20% commercial)	Yes
Do the reserve deposits comply with the following:	
Operating: None unless balance drops below 25% of prior year's operating expenses	Yes
Replacement: The higher of a) the amount needed according to the approved 20-year PNA, or b) \$400 per unit per year (\$350 per unit for projects with 11+ units)	\$400 pupa

Stuart Street Apartments

Existing Tenants and Affordability

Have 75% of existing households acknowledged their agreement to participate (in the conversion to restricted affordability and cooperative conversion, if applicable)?

n/a

Does the project have an average affordability of 80% of the area median income (AMI)?

Yes - all units at 80%

Do 66% or more of the existing households income-certify, with incomes averaging up to 80% AMI? Up to 34% of households may be over-income (above 120% AMI) or refuse to certify.

n/a

Limited Equity Housing Cooperative

Is applicant proposing to convert the property to a limited equity housing cooperative (LEHC) or similar model?

Yes

Applicant experience with cooperative conversion:

BACLT has four cooperatives that are part of the land trust.

Exceptions to the Program Guidelines

Did the Applicant request or does the project require any exceptions to the program guidelines?

Yes

Describe exceptions, below.

BACLT requested to cap all units at 80% AMI (rather than achieving an average AMI of 80%).
 - 1638 Stuart has no existing tenants, and BACLT has demonstrated that the project will have a positive cash flow if rents are capped at 80% AMI.
Low vacancy reserve (\$24,000)
 - Requirement assumes the project is operating during construction. Stuart is vacant and will not be operated until construction is complete, so a higher vacancy reserve is not necessary.
Construction Management costs in excess of \$25,500
 - The budget shows \$50,000 for project and construction management. With the significantly increased project costs, BACLT could have requested a higher developer fee. However, BACLT hired project and construction management consultants to take on duties previously carried out by staff.
Low Contingencies
 - The project is more than halfway done (59% through construction as of September 2021), and it's reasonable to have lower contingency percentages. The current construction budget includes an allowance for anticipated change orders in addition to the contingency.
BACLT Loan
 BACLT is providing a loan to the project, funded by private individuals. BACLT requested to use project cash flow to repay the loan over time.

Funding Recommendation/Funding Contingent Upon

Amend the existing development loan to add \$400,000, for a total City loan of \$2,052,500.

Small Sites Program - Project Review

Applicant:	Bay Area Community Land Trust (BACLT)
Project Name:	Solano Avenue Cooperative
Project Address:	1685 Solano Avenue
SSP Funds Requested:	3,900,000

Project Summary:

1685 Solano is a 13-unit residential building with four 1-bedroom units and nine 2-bedroom units. The property was built in 1964, and has four stories and an elevator. The current owner initiated Ellis Act evictions in 2019, with the intent of renovating the property and converting the building to tenancy in common. BACLT engaged with the remaining residents in late 2019 and has been working towards acquisition since then. BACLT plans to complete the renovations in progress, and convert the property to a nonequity or limited equity cooperative owned by the land trust with residents taking on some management responsibilities in partnership with BACLT.

Program Objectives:

Are residents at imminent risk of Ellis Act evictions?	yes
Is the property occupied?	partially
Do the existing residents include vulnerable populations (i.e. families with minor children, elderly, disabled, and catastrophically-ill persons)? <i>If yes, describe vulnerable population, below.</i>	yes
There are five residents occupying four units. Household incomes range from 68% AMI to 145% AMI. Two of the existing residents are elderly.	
Average AMI of current residents:	106%
Subsidy per unit:	300,000
Number of affordable units proposed:	13
Proposed conversion to LEHC?:	yes

Developer Experience and Capacity

Developer must have completed one comparable project, and have the demonstrated capacity to undertake the proposed project.

Solano Avenue Cooperative

Developer Capacity

BACLT operates under a cooperative structure, and currently has three staff members, including an Organizational Director. BACLT is in the process of hiring for a Projects Director. The current staff do not have significant construction or project development experience. Housing staff have concerns about BACLT's capacity to take on new projects without additional organizational support. BACLT hired a construction management consultant, and keeping a consultant on through the renovation process will be a condition of the City's loan.

The organization's financial indicators are mixed, with the interim (September 2021) financials showing a weak current ratio, which is partially due to \$295k in funds owed to Stuart Street vendors and contractors. This is likely related to BACLT's slow turnaround time in requesting lender funds and disbursing it to their general contractor. BACLT's financials show a healthy cash ratio, and the organization could support operations for 279 days (at least 90 is preferred). A small organization such as BACLT is more impacted by changes in income and expenses than a larger organization with more financial resources. The proposed developer fee of \$210,000 would bolster BACLT's income significantly. The City reserved \$200,000 to support capacity building for BACLT in FY22, some of which will be used for the construction management consultant. The capacity building contract will include benchmarks for performance to encourage BACLT's organizational growth and stability.

Developer Experience

The City awarded \$1 million to BACLT for Stuart Street through its first SSP NOFA in 2019. Stuart is an 8-unit property that sat vacant for over 20 years, and was in extremely poor condition. The project has suffered significant delays and cost overruns. The budget overruns are in part due to significant work needed in sections of the building that were inaccessible during BACLT's assessment of the renovation needs, and in part because BACLT and its construction team underestimated the damage to the existing structure. The City added \$652,500 in 2020. BACLT requested an additional \$400,000 from the City to complete the project, for a total loan of \$2,052,000. BACLT hired a construction manager for Stuart to oversee the remaining renovations, and the BACLT Board is providing closer oversight of active projects.

Prior to Stuart Street, BACLT was involved with several renovations in recent years, as the developer and co-developer. BACLT had a project management role in two renovations, which had a combined total development cost of \$350,000. BACLT most comparable project was an acquisition and renovation project with a budget of \$1.8 million, which BACLT co-developed with the San Francisco Land Trust. BACLT has extensive experience with tenant organizing, trainings, and establishing limited equity and nonequity cooperatives.

Solano Avenue Cooperative

Property Eligibility

Total number of units:	13
Do all residential units meet the City's definition of 'dwelling unit'?	yes
Is the majority of the property residential?	yes

Project Scope

Does the proposed renovation meet the health and safety needs of the project?	yes
Is the renovation scope and budget supported by a physical needs assessment (PNA) of the property?	yes

The proposed construction budget does not include all of the items identified in the physical needs assessment (PNA), as some of that work will be completed by the current owner. BACLT addresses the remaining immediate and short-term needs identified in the PNA in its renovation scope. The renovation scope addresses health and safety needs, and will incorporate water-efficient and energy efficient improvements. Some longer term scope items identified in the PNA will be addressed in the first ten years of operations, and will be paid for out of the replacement reserves.

Project Budget

Is the proposed City loan leveraged with private financing?	yes
Is the proposed per unit subsidy under the program limits?	yes
Is the acquisition price substantiated by an appraisal showing both the fair market value and the anticipated restricted value?	yes
Are fees charged to the project reasonable?	yes
Is the developer fee less than the program limit of \$80,000 plus \$10,000 per unit, not to exceed 5% of project costs (excluding the developer fee)?	yes
Are construction management fees less than \$25,500?	yes
Does the renovation budget include state prevailing wage rates?	yes
Construction contingency (must be 15% or higher)	yes
Soft cost contingency (must be 15% or higher)	yes
Do the capitalized reserves comply with the following?	
Operating: 25% of budgeted 1st year operating expenses	yes
Replacement: Greater of \$2,000 per unit or the amount necessary to pay replacement costs for the next 10 years, as specified in the PNA.	no, see note
Vacancy: The monthly rent for units (residential and commercial) vacant at acquisition, multiplied by the number of months expected to remain vacant during renovation and lease-up.	yes

Solano Avenue Cooperative

Financing:

The City loan is contingent upon BACLT securing private financing. The project's debt service coverage ratio is 1.15, which is the minimum potential lenders will want to see. BACLT is working with Enterprise Community Partners on a loan from the Bay Area Preservation Pilot program that would support the acquisition and renovation.

Replacement Reserves:

The capitalized replacement reserve is \$26,000 (\$2k per unit), and is not sufficient to address the capital needs identified in the PNA. The proforma shows annual deposits of \$350 per unit. BACT requested that 2/3 of residual receipts be put towards replacement reserves until the balance is sufficient to meet the projected costs from the PNA. BACLT's proforma shows repayment to the City starting in year 11. BACLT also requested a transfer tax refund, which was approved by Council in October 2021. Between the construction budget, capitalized replacement reserves, and reserve deposits, BACLT shows sufficient funding to address the anticipated renovation needs.

Operating Proforma

Is there a positive cash flow for 15+ years after project completion?	yes
Do the vacancy rates meet or exceed program requirements (5% residential, 20% commercial)	yes
Do the reserve deposits comply with the following:	
Operating: None unless balance drops below 25% of prior year's operating expenses	TBD
Replacement: The higher of a) the amount needed according to the approved 20-year PNA, or b) \$400 per unit per year (\$350 per unit for projects with 11+ units)	no, see note

Operating Reserve Deposits:

The operating proforma shows annual deposits to the operating reserve starting at \$6,182, or approximately \$476 per unit per year. As part of annual compliance monitoring, staff will review the project's operating reserves to determine whether deposits are required.

Existing Tenants and Affordability

Have 75% of existing households acknowledged their agreement to participate (in the conversion to restricted affordability and cooperative conversion, if applicable)?	TBD
Does the project have an average affordability of 80% of the area median income (AMI)?	yes
Do 66% or more of the existing households income-certify, with incomes averaging up to 80% AMI? Up to 34% of households may be over-income (above 120% AMI) or refuse to certify.	yes

Solano Avenue Cooperative

Existing Tenants:

BACLT must provide tenant acknowledgment forms prior to loan closing. BACLT has certified tenant incomes and found that three out of four households are over 100% AMI. The overall average for the building meets the SSP requirements. Occupied units will be restricted to 80% AMI or lower at turnover.

Limited Equity Housing Cooperative

Is applicant proposing to convert the property to a limited equity housing cooperative (LEHC)?

yes

Applicant experience with LEHC conversion:

BACLT intends to convert the property to a non-equity cooperative. BACLT has extensive experience working with resident communities on cooperative conversions. The existing tenants have expressed support for this effort.

Exceptions to the Program Guidelines

Did the Applicant request or does the project require any exceptions to the program guidelines?

yes

Describe exceptions, below.

Replacement Reserves:

The construction budget is \$1.4 million (including contingency) and the capitalized replacement reserve is \$26,000. That combined budget addresses the shorter term capital needs identified in the PNA, but BACLT needs to build its replacement reserves to plan for future capital needs such as elevator repair. BACLT requested that 2/3 of the residual receipts stay with the project for the replacement reserves until the reserve balance is sufficient to address the capital needs identified in the PNA. Based on the current proforma, this means the City will not receive any repayments until after the tenth year of operating.

Affordability:

While the program requires an average of 80% AMI for the building, capping all 13 units at 80% AMI will allow BACLT to get the maximum property tax waiver for the property. The existing over-income tenants will stay, but their units will be restricted at turnover.

Solano Avenue Cooperative

Funding Recommendation

Fund the project at \$3,900,000, with the following conditions for BACLT:

- A first mortgage in an amount sufficient to complete the project
- Retain a development consultant to oversee the remaining renovations
- Tenant acknowledgement forms from all current residents, acknowledging that BACLT is acquiring the property, that there will be affordability restrictions on the units, and that BACLT intends to convert the property to a nonequity cooperative.
- CEQA approval

Note: Separate from this process, the City will enter into a contract for FY22 capacity building funds that will include performance standards to support BACLT's growth.