



Office of the City Manager

CONSENT CALENDAR

June 25, 2024

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Scott Gilman, Interim Director, Health, Housing, and Community Services

Subject: Additional Development Funding Reservation for 1740 San Pablo Avenue

RECOMMENDATION

Adopt a Resolution:

1. Reserving an additional \$4,496,669 in Housing Trust Fund (HTF) program funds for the development loan agreement for BRIDGE Housing Corporation's (BRIDGE) affordable housing project located at 1740 San Pablo Avenue.
2. Authorizing the City Manager or her designee 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 add \$4,496,669 to the existing reservation, for a total of nearly \$12M. Staff will determine the exact mix of funds from the HTF program prior to the loan closing. Funds could include Affordable Housing Mitigation Fee (Fund 120), Measure O (Fund 512), or general funds from Measure U1 (Fund 016). Funding is subject to appropriation in the FY 2025 budget.

CURRENT SITUATION AND ITS EFFECTS

BRIDGE requested an additional \$4,496,669 for its 1740 San Pablo project. Under Section V.D. of the Housing Trust Fund Guidelines, projects at imminent risk of losing a State or Federal funding award are able to request funding outside of a competitive process. 1740 San Pablo qualifies because BRIDGE secured an Infill Infrastructure Grant (IIG) award in 2023, and that award may be revoked if BRIDGE is not successful at securing the remainder of the project's financing by February 2025.

BRIDGE has been pursuing State financing for 1740 San Pablo since the City closed its acquisition and development loan for the project in 2021. Because of the highly competitive nature of state funding sources, it often takes affordable housing projects several years to secure all required financing. In addition to \$3.1M in IIG funds, BRIDGE

secured over \$11M in Multifamily Housing Program (MHP) funds earlier this year. Because State housing funds are oversubscribed, BRIDGE was not able to secure as much MHP funding for the project, which created a nearly \$4.5M gap in the budget.

BRIDGE must close the financing gap before applying for tax credits, and so requested additional funding from the City. BRIDGE must apply for tax credits in July 2024 in hopes of securing an award in December 2024, ahead of the IIG deadline. There are no other funding sources that could provide a commitment of funds on this timeline. If successful in the 9% tax credit round, BRIDGE would start construction on 1740 San Pablo in the first half of 2025.

BRIDGE tried to negotiate the IIG deadline with the State to allow time for multiple tax credit application rounds, but the State prioritizes its funds for projects that are ready to move to construction and revokes awards for projects that are not. If BRIDGE loses its IIG funds, the project's financing gap would increase by an additional \$3M to a total of \$7.5M in needed funding. An additional funding gap would further delay the development of 1740 San Pablo, likely for several years.

Typically, Housing Trust Fund requests are vetted by the HTF Subcommittee of the Housing Advisory Commission (HAC) as well as the full HAC. Due to the time-sensitive nature of this request, Housing and Community Services staff plan to take this request directly to the HAC on June 6th. If the HAC's recommendation differs from staff, we will provide their recommendation in a supplemental item.

BACKGROUND

BRIDGE applied for funding through the 2019 Housing Trust Fund Request for Proposals process for 1740 San Pablo, a 54-unit project for households earning between 30% and 60% of the area median income (AMI). Initially, BRIDGE proposed a mixed-income project that would also include moderate income units for households earning up to 120% AMI. The initial City subsidy was approximately \$142k/unit, which was significantly lower than other new construction projects funded through the same RFP process, which were awarded subsidies closer to \$200k/unit.

In 2020, the state program for funding mixed-income projects was oversubscribed, and due to a change in regulations, BRIDGE's project was no longer competitive in that pool. BRIDGE pivoted to a typical affordable housing project that could compete for the most common types of state funding. Changing the financing plan and income mix required BRIDGE to get new entitlements. The re-entitlement process took additional time, and BRIDGE did not want to borrow private financing for acquisition and predevelopment costs because the higher interest rate and carrying costs increase the overall cost to develop the project.

On March 10, 2020, with Resolution 69,315 the City approved that \$7.1M of the \$7.5M loan be used for acquisition and predevelopment costs in order to reduce the project's

carrying costs. The funding was conditioned on the project receiving new entitlements and obtaining all of its remaining financing within five years of the reservation. In 2021, the project received its new entitlements from Planning. The project needs the remaining \$4,496,669 and a tax credit award to meet that condition and commence construction.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

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 54 new units of affordable housing to the City's inventory. The additional City funds would close the project's financing gap, increase its competitiveness for 9% tax credits, and prevent further project delays.

ALTERNATIVE ACTIONS CONSIDERED

If the City does not reserve additional funds, BRIDGE would not be able to obtain all of the project's permanent financing by the IIG deadline and could lose its IIG award. This would cause a delay, likely for a year or more, and increase the financing gap BRIDGE would need to fill.

CONTACT PERSON

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

Attachments:

1: Resolution

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

AUTHORIZATION FOR AN ADDITIONAL \$4,496,669 FUNDING RESERVATION 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 December 10, 2019, with Resolution No. 69,231-N.S., the City Council reserved \$7.5 million for the development of 1740 San Pablo; and

WHEREAS, in March 2020, with Resolution No. 69,315-N.S., the City approved advancing \$7.1M of funds in order to support acquisition and predevelopment activities, conditioned on BRIDGE securing entitlements and receiving all of its funding within five years of the reservation; and

WHEREAS, BRIDGE secured the project entitlements in 2021, and has been pursuing funding from the State of California; and

WHEREAS, BRIDGE secured a State of California Infrastructure and Infill Grant (IIG) award for 1740 San Pablo that the State may revoke if the project's permanent financing is not secured by February 2025; and

WHEREAS, the project has a financing gap and will not make the IIG deadline without an additional reservation of City funds by June 30, 2024; and

WHEREAS, the City's HTF Guidelines allow funding requests to be submitted at any time for projects at imminent risk, including projects at risk of losing existing state or federal funding awards; and

WHEREAS, BRIDGE requested an additional \$4,496,669 from the City's HTF program to support 1740 San Pablo, which meets the definition of a project at imminent risk.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the Council approves an additional \$4,496,669 development funding reservation of HTF funds for 1740 San Pablo.

BE IT FURTHER RESOLVED that funds shall be reserved for a period of no more than 24 months from the date of this Resolution, contingent on BRIDGE obtaining all required

City approvals and securing commitments for project funding that the City Manager or her designee deems sufficient within the reservation period.

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 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.

