



Office of the City Manager

CONSENT CALENDAR
June 13, 2023

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: Funding Recommendation for the Russell Street Project at 1741-1747 Russell

RECOMMENDATION

Adopt a Resolution:

1. Reserving up to \$4,500,000 in General Funds received pursuant to Measure P and/or Measure U1 for the Russell Street supportive housing project at 1741, 1743, and 1747 Russell Street as proposed by Berkeley Food and Housing Project (BFHP), contingent on BFHP's timely submission of a complete application demonstrating they meet the City's funding criteria; and
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

The attached resolution reserves \$4,500,000 in City General Funds received pursuant to Measure P, Measure U1, or a combination of the various funding sources to support the costs of purchasing and rehabilitating 1741, 1743, and 1747 Russell Street. Funding is subject to appropriation in the FY 2024 budget in the Measure P (Fund# 011) or Measure U1 (Fund #016) funds.

Russell Street will need additional funds to rehabilitate the property. No reservation of additional rehabilitation funding is recommended at this time. Staff will work with the development team to identify sources of funds to support the rehabilitation.

CURRENT SITUATION AND ITS EFFECTS

In response to the City of Berkeley's Request for Proposals (RFP) for potential Homekey projects, Berkeley Food & Housing Project (BFHP) requested funding to purchase and rehabilitate two adjacent parcels (located at 1741, 1743, and 1747 Russell Street), where it currently operates a 17-bed Board and Care (Russell Street Residence) and eight units of housing supported with Shelter Plus Care vouchers (Russell Street Annex and 1747 Russell) for 25 people with a disability or mental illness who are experiencing or at risk of homelessness. While the staff evaluation deemed Russell Street less competitive for Homekey funding than the other proposal received,

BFHP demonstrated in their application an urgent need for funding to secure the site and prevent the loss of Board and Care beds.

BFHP entered into an agreement with the property owner for a purchase price of \$4,000,000. If BFHP receives a commitment of funding from the City to acquire the site by June 30th, 2023, it will exercise its option under the agreement to extend its due diligence period and be required to close on the sale of the property between August 30th and November 30th, 2023. BFHP's lease with the property owner expires on December 31, 2023 and is not expected to be renewed if BFHP cannot purchase the site.

All three buildings are in need of repairs and system upgrades due to their age and condition. BFHP estimates the project renovation costs to be approximately \$4.3M. The projected costs could go up once a Physical Needs Assessment has been completed. Due to the risk involved with acquiring a property with substantial rehabilitation needs, BFHP will not close on the purchase if they are unable to identify a source of funding for renovation costs.

Staff recommends the City, upon the completion of underwriting review, enter into an acquisition loan agreement with the standard conditions of Housing Trust Fund (HTF) acquisition loans (a 55-year term, 3% interest, and the requirement that the project secure financing and start the rehabilitation within five years). The underwriting review will require BFHP to submit an updated funding application, appraisal, and Physical Needs Assessment to demonstrate the need for City funds as well as feasibility of the proposed project. The City loan will primarily fund the purchase of 1741-1747 Russell Street, not to exceed the appraised value of the property. Additional eligible costs include closing costs, safety inspections, and emergency rehabilitation.

Reserving funds for affordable housing is a Strategic Plan Priority Project, advancing our goal to create affordable housing and housing support service for our most vulnerable community members.

BACKGROUND

BFHP has operated Russell Street Residence since 2002 in close partnership with the Mental Health division (HHCS/MH) as a community care licensed Board and Care facility for 17 formerly unhoused adults diagnosed with serious and persistent mental illness. Rehabilitation needs of Russell Street Residence include roof upgrades and building system repairs required to maintain safety and operations.

The adjacent Russell Street Annex is a four-bedroom single family house that provides housing for people with disabilities experiencing homelessness. 1747 Russell Street is also a four-bedroom single family home that BFHP recently began leasing.

The City issued an RFP on November 29, 2022 to select an eligible Homekey project and development team. HHCS received one proposal from Memar Properties, Inc. and Housing Consortium of the East Bay for the University Inn project and another from BFHP for the Russell Street project. Based on careful review of the two proposals, applicant experience with the Homekey program, and an evaluation of the Homekey program guidelines, staff recommended selection of the University Inn project and began working with BFHP to identify alternative sources to finance the Russell Street acquisition.

Section I.A.I of the HTF guidelines require applicants to have completed at least three projects of a similar size and scope within the last ten years in order to be eligible for funding. While BFHP has experience rehabilitating properties in its portfolio and partnering with lead developers on new construction projects, Russell Street would be BFHP's first time leading a large acquisition and rehabilitation project. Staff recommend waiving this requirement due to BFHP's knowledge of and existing use of the site. The HTF guidelines also require a City Council waiver if a City loan amount exceeds 40% of the project's total costs, which Staff recommends due to the unique nature of the Russell Street project and challenges securing alternative funding.

On April 18, 2023, the Homeless Services Panel of Experts (HSPE) took the following action:

Action: M/S/C (Marasovic/Hynes) recommend to City Council to allocate \$4.5 million in Measure P monies to Berkeley Food and Housing Project (BFHP) for the acquisition of Russell Street Residence and that City staff otherwise coordinate with BFHP to leverage other sources of funding, including City monies and monies external to the City, for necessary renovations in the amount of \$4.3 million.

Vote: Ayes: Bookstein, Feller, Hynes, Johnson, Kealoha-Blake, Marasovic, Meany, and Wachspress. Noes: None. Abstain: None. Absent: Jones.

On April 26, 2023, the HSPE took the following action:

Action: M/S/C (Bookstein/Feller) move to open the discussion about Russell House to ensure HSPE has adequate information and to consider the motion in light of the memo provided by the Berkeley Food and Housing Project.

Vote: Ayes: Marasovic, Hynes, Jones, Bookstein, Feller, and Kealoha-Blake. Noes: None. Abstain: None. Absent: Meany, Wachspress.

Action: M/S/C (Marasovic/Hynes) recommend to City Council to allocate \$4.5 million or an amount of monies necessary based on an appraisal of the property, in Measure P monies to Berkeley Food and Housing project for the acquisition of Russell Street Residence and that City staff otherwise coordinate with BFHP to

leverage other sources of funding, including monies external to the City and City monies, for necessary renovations in the amount of \$4.3 million.

HSPE supports this acquisition of Russell house to preserve the Board and Care as an essential service to the community; that the purchase price be based on an appraisal commissioned by the City staff.

Vote: Ayes: Marasovic, Hynes, Jones, Bookstein, Feller, and Kealoha-Blake. Noes: None. Abstain: None. Absent: Meany, Wachspress.

On May 16, 2023, the City Council Budget and Finance Policy Committee directed staff to explore the use of General Funds received pursuant to Measure P, Measure U1 or a combination of these funding sources for the Russell Street supportive housing project and took the following action:

Action: M/S/C (Arreguin/Harrison) to support the recommendation of HHCS and the Homeless Services Panel of Experts to allocate \$4.5 million for the acquisition of Russell House.

Votes: Ayes: Arreguin, Kesarwani, and Harrison. Noes: None. Abstain: None. Absent: None.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no environmental sustainability effects directly associated with the recommendations in this report. If the project moves forward, BFHP will acquire and rehabilitate the property, which is generally considered a more sustainable type of development.

RATIONALE FOR RECOMMENDATION

Funding the acquisition of Russell Street will preserve critically-needed supportive housing in Berkeley for people with a disability or mental illness who are experiencing or at risk of homelessness.

ALTERNATIVE ACTIONS CONSIDERED

The City could decline to fund the acquisition of Russell Street. If BFHP is not able to secure financing to purchase the property, it is likely that the lease will not be renewed and tenants will need to be relocated. The number of licensed Board and Care units in Alameda County, which provide meals and manage medications for tenants, has sharply decreased in the last 15 years and finding placements is likely to be very difficult. Since that would not be consistent with the City's Strategic Plan to increase affordable housing opportunities, particularly for the most vulnerable residents, staff is recommending support for Russell Street as described above.

Staff are not recommending that the City reserve additional funds for the rehabilitation costs at this time due to the limited amount of available Measure P and U1 funding.

CONTACT PERSON

Grace Streltsov, Community Development Project Coordinator, HHCS, 510-981-5423

Attachments:

1: Resolution

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

APPROVAL OF A \$4,500,000 FUNDING RESERVATION FOR AN ACQUISITION
LOAN FOR THE RUSSELL STREET PROJECT

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, 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, on January 19, 2021 City Council adopted Resolution No. 69,683 revising HTF guidelines (the "Guidelines") as revised and authorizing the HTF Program in accordance with the Guidelines; and

WHEREAS, the Guidelines allow acquisition loans to be submitted at any time; and

WHEREAS, Berkeley Food and Housing Project (BFHP) has provided supportive housing for people with disabilities and mental health diagnoses at the Russell Street Residence located at 1741 Russell Street and at Russell Street Annex located at 1743 Russell Street since 2002; and

WHEREAS, BFHP requested \$4,500,000 in City funds to support the acquisition and rehabilitation of 1741, 1743, and 1747 Russell Street (Russell Street); and

WHEREAS, on April 18, 2024, the Homeless Services Panel of Experts recommended \$4,500,000 in acquisition funding for BFHP's proposed purchase of Russell Street; and

WHEREAS, on April 26, 2024, the Homeless Services Panel of Experts reconfirmed their recommendation for the \$4,500,000 acquisition funding for BFHP's proposed purchase of Russell Street.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that Council approves \$4,500,000 in funding reservations from General Funds received pursuant to either Measure P Allocation, Measure U1 Allocation, or the combination of these funding sources for the acquisition and emergency rehabilitation of 1741, 1743, and 1747 Russell Street.

BE IT FURTHER RESOLVED that that funds shall be reserved for a period of no more than 24 months from the date of this Resolution, contingent on the development team obtaining a physical needs assessment and appraisal of the property 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 making of this loan shall be contingent on and subject to such other appropriate terms and conditions as the City Manager or her designee may establish, including a staff underwriting review and the Guidelines with the exceptions of Sections 1.A.1 and IV.B.1.

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.

