



Office of the City Manager

CONSENT CALENDAR
February 11, 2014

To: Honorable Mayor and Members of the City Council
From:  Christine Daniel, City Manager
Submitted by: Jane Micallef, Director, Health, Housing & Community Services Department
Subject: Restructuring City Loans to Building Opportunities for Self-Sufficiency (BOSS)

RECOMMENDATION

Adopt a Resolution:

- a. Forgiving accrued interest in the aggregate amount of \$785,947 on City Loans to BOSS developments McKinley House and Sankofa House; and
- b. Waiving Section V.B.2 of the Housing Trust Fund Guidelines to reset the interest rates on City loans to 0% for McKinley House and Sankofa House.

SUMMARY

BOSS has provided homeless families and individuals with housing, services, and job development assistance since 1971. The City has long been a partner in this effort. With respect to two of BOSS's ten transitional housing sites – McKinley House (2111 McKinley Avenue) and Sankofa House (711 Harrison Street) – the City began providing financial support in 2000, which ultimately led to the expansion of BOSS's housing and services programs for homeless families at those developments. Today, McKinley House serves six families with children; Sankofa House serves up to ten families with children. Both projects also provide extensive support services, discussed in further detail below.

The aggregate outstanding principal balance of the City's loans for McKinley and Sankofa is \$1,386,830. Together with interest, which has accrued at 6% annually for all loans, the total outstanding balance is \$2,172,778. Carrying this level of unpaid debt, with a continual accrual at 6%, hinders BOSS's critical and ongoing fundraising efforts. Forgiving the accrued interest and resetting the loans' interest rates to 0% will help BOSS deliver high-quality services to homeless families in Berkeley without substantively diminishing the City's security interests in the sites, since both properties are City-owned.

FISCAL IMPACTS OF RECOMMENDATION

Summaries of the City's contracts for McKinley and Sankofa Houses are as follows:

McKinley House					Sankofa House				
Contract #	Loan ID#	Loan Amount	Disbursed	Accr Int, 6/30/13	Contract #	Loan ID#	Loan Amount	Disbursed	Accr Int, 6/30/13
5856A	5740	11,600	11,600	7,123	5268A + 5269 A&B	5660	330,280	328,600	186,748
5856A	5741	147,040	144,613	69,090	5268A + 5269 A&B	5661	209,316	208,196	122,002
5856A	5742	71,360	67,447	35,115	5268A + 5269 A&B	5662	46,350	46,350	26,617
					5268A + 5269 A&B	5664	352,304	350,671	195,190
					5648A	5680	240,000	229,354	144,062
Totals		230,000	223,660	111,328	Totals		1,178,250	1,163,171	674,619
Total Outstanding Balance, 6/30/13:				334,987	Total Outstanding Balance, 6/30/13:				1,837,790
Aggregate Accrued Interest, 12/31/13				785,947					
Aggregate Ttl Outstanding Bal, 12/31/13:				2,172,778					

Like most City loans to nonprofit service providers, the McKinley and Sankofa loans have residual receipts repayment terms, which means that debt service payments come from surplus cash. Since all of the projects' income is devoted to serving homeless households, including severely mentally ill individuals, the City does not expect periodic loan repayments during the life of the loans. Maturation dates for the loans begin in 2031.

While approving the requested loan forgiveness and interest rate reductions will mean that the City foregoes repayment of \$785,947 in interest that has accrued to date, as well as repayment of a significant amount of interest that otherwise would accrue between 2014 and 2031, the likelihood that the City would actually force repayment of BOSS's debt starting in 2031 is low. BOSS provides essential services to a population that has substantial health, housing, and educational needs. Data collected throughout the country demonstrate that successful supportive housing developments, by centralizing multiple services, not only deliver the best means of helping homeless people in need but also achieve cost savings for localities by reducing higher-cost alternate responses, such as emergency room treatments. Were the City to demand repayment and, potentially, put the services programs at risk, the result could actually be increased costs to the City.

CURRENT SITUATION AND ITS EFFECTS

Community volunteers organized BOSS in 1971 in response to the closure of mental health hospitals that put many mentally ill men and women onto the streets. Today, BOSS serves over 1,500 homeless families and individuals with multiple barriers to self-sufficiency. At McKinley House, BOSS's menu of services includes permanent housing and employment search assistance, adult and children's educational resources, peer

support and socialization, family activities, child development, and regular case management. At Sankofa House, BOSS provides enhanced services through its larger Ursula Sherman Village campus, of which Sankofa is a part, including a specialized after-school program for homeless children, an education and computer lab, access to health and mental health care, drug/alcohol recovery support, peer support and mentoring, meals, laundry, showers, and storage facilities.

BOSS's annual operating budget exceeds \$6.5 million. In addition to the City of Berkeley, principal funders include HUD, Alameda County, and the California Department of Housing and Community Development ("HCD"). BOSS staff must work continuously to maintain funding contracts, secure new ones, and leverage philanthropic donations. Approving the requested loan restructuring will improve its ability to do so. (Note that, in support of BOSS and its ongoing operational effort, Alameda County forgave interest on three other BOSS properties in 2012; the City of Berkeley is the only long-term lender on Sankofa and McKinley Houses). The request for assistance comes at a time that the need for services provided by organizations like BOSS is at a crisis point. While the recession of 2008 drove homelessness and poverty levels up, the partially rebounding economy's pressure on rents has prevented any abatement in the demand for housing and social services.

BACKGROUND

McKinley House is a City-owned property, which BOSS has managed since 1987 as transitional supportive housing for up to six homeless households (one additional unit is devoted to office space). Council first approved \$190,000 in Housing Trust Fund ("HTF") money for building repairs in 2002, which covered exterior paint, lead testing and abatement, bathroom replacement and floor refinishing. In 2005, Council approved another \$40,000 to cover the cost of seismic upgrades, bringing the City's total expenditure to \$230,000, or, approximately, \$32,800 per unit.

Funding for Sankofa House, also a City-owned property, went toward new construction: 4 units with multiple bedrooms able to serve ten households. The City's Sankofa House funding consolidated two prior City loans totaling \$600,250 made to the Ursula Sherman Campus in 2001; an additional Ursula Sherman loan of \$240,000 made in 2003; and \$338,000 in additional funds, for a total loan of \$1,178,250. The project's total development cost was approximately \$1.55 million. Additional lenders included HCD and Alameda County.

RATIONALE FOR RECOMMENDATION

Forgiving accrued interest on residual receipts loans made over the course of the last thirteen years to BOSS, an experienced homeless services provider, will assist in BOSS's efforts to secure new sources of funds so that it can continue to provide much-needed services. Reducing the interest rates on the loans from 6% to 0% acknowledges that funding for homeless services programs functions typically like a grant – transitional, supportive housing developments do not generate excess income (as, say, 50%-60% AMI rental units may), and thus do not produce cash flow for debt service.

ALTERNATIVE ACTIONS CONSIDERED

Council could opt to keep the loans' terms in place.

HOUSING ADVISORY COMMISSION ACTION

At its regularly scheduled meeting of January 9, 2014, the Housing Advisory Commission (HAC) unanimously passed a motion recommending Council's approval of BOSS's request for accrued interest forgiveness and interest rate reductions on its McKinley and Sankofa loans; M/S/C: Darrow/Beier. Ayes: Beier, Darrow, Feller, Skjerping, and Wolfe. Noes: None. Abstentions: None.

CONTACT PERSON

Kate Hartley, Sr. Community Development Project Coordinator, HH&CS (510) 981-5411

Attachments:

1: Resolution

- Exhibit A: McKinley House Loan Amendment
- Exhibit B: Sankofa House Loan Amendment 1
- Exhibit C: Sankofa House Loan Amendment 2
- Exhibit D: Sankofa House Loan Amendment 3

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

FORGIVENESS OF \$785,947 IN ACCRUED INTEREST ON LOANS TO BUILDING OPPORTUNITIES FOR SELF-SUFFICIENCY'S MCKINLEY HOUSE AND SANKOFA HOUSE DEVELOPMENTS; WAIVER OF HOUSING TRUST FUND GUIDELINES SECTION V.B.2 REQUIREMENT OF 3% INTEREST RATE

WHEREAS, the City Council established a Housing Trust Fund (HTF) Program to assist in the development and preservation of affordable housing for low- and moderate-income households in order to maintain and enhance the ethnic and economic diversity of the City; and

WHEREAS, the HTF Program addresses the substantial need for affordable and special needs housing documented in the City's General Plan, Housing Element, and Consolidated Plan; and

WHEREAS, Building Opportunities for Self-Sufficiency ("BOSS") provides transitional housing and support services for homeless and mentally ill households at its McKinley House and Sankofa House developments ("Projects"), both City-owned properties; and

WHEREAS, beginning in 2000, the City has partnered with BOSS in the provision of these services, providing loans totaling \$230,000 at McKinley and \$1,178,250 at Sankofa, with all funding carrying a 6% simple interest rate; and

WHEREAS, the nature of homeless services and transitional housing prevents the generation of excess income with which to pay debt service, and the aggregate accrued interest on the loans was \$785,947 as of December 31, 2013, bringing the total outstanding balance for all disbursed funds to the Projects to \$2,172,778; and

WHEREAS, forgiveness of accrued interest to date and a reduction in the loans' interest rate to zero percent (0%) will improve BOSS's financial standing and enhance its fundraising efforts; acknowledge the lack of income to service debt produced by transitional, supportive housing for homeless households; and, given the City's ownership of both properties, not diminish the City's security in the sites.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the Council forgives \$785,947 in accrued interest on loans approved for McKinley House (City Contract No. 5856A) and Sankofa House (City Contract Nos. 5268A; 5269A&B; and 5648A).

BE IT FURTHER RESOLVED that the Council of the City of Berkeley waives the requirement of Section V.B.2 of the Housing Trust Fund Guidelines and approves a 0% interest rate for the above-referenced loans for McKinley House and Sankofa House.

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 City Clerk.

Exhibits

- A: McKinley House Loan Amendment
- B: Sankofa House Loan Amendment 1
- C: Sankofa House Loan Amendment 2
- D: Sankofa House Loan Amendment 3

AMENDMENT TO THE DEVELOPMENT LOAN AGREEMENT

MCKINLEY HOUSE

THIS AMENDMENT TO THE DEVELOPMENT LOAN AGREEMENT

("Amendment") is made as of this _____ day of _____, 2014, by and between the City of Berkeley, a municipal corporation ("City"), and Building Opportunities for Self-Sufficiency, a California nonprofit public benefit California Corporation ("Borrower"). The City and the Borrower are collectively referred to as the "Parties."

RECITALS

WHEREAS, by Resolution No. 61,433-N.S., the City Council authorized a Development Loan Agreement ("Loan Agreement") in the amount of \$190,000 (Contract No. 5856), between the City and Borrower, dated November 25, 2002, for the rehabilitation of McKinley House, located at 2111 McKinley and operated by Borrower as transitional, supportive housing for homeless families; and

WHEREAS, on September 27, 2005, by Resolution No. 63,064-N.S., the City Council authorized an amendment to the Loan Agreement that added \$40,000 to its value (Contract No. 5856A), and provided assistance for further renovations at McKinley House; and

WHEREAS, on _____, 2014, by Resolution No. XX-XXX-N.S., the City Council approved additional amendments to the Loan Agreement as set forth below.

THEREFORE, the City and Borrower mutually agree to amend the Loan Agreement as follows:

1. Section II, Paragraph 3, is deleted in its entirety and replaced as follows:

"As of January 1, 2014, the loan shall bear a zero percent (0%) interest rate and shall be repaid in full in 30 years from the date of this Agreement, on or before November 24, 2032, the loan maturity date. In any given year during the Term, if the Project generates cash flow after payment of all operating expenses, any required reserve deposits, and mandatory debt service payments, if any, Borrower shall use 50% of such excess cash flow to make a loan repayment, and such payment shall reduce the principal amount of the loan."

2. The following paragraph is added as Section II, Paragraph 3, subsection (a):

The City forgives all unpaid interest accrued on the loan between November 25, 2002 and December 31, 2013.

In all other respects, the Loan Agreement remains in full force and effect.

IN WITNESS WHEREOF, the City and Borrower have executed this Amendment as of the date written on the first paragraph of this Agreement.

BORROWER:

Building Opportunities for Self-Sufficiency, a California nonprofit public benefit corporation

By:

_____, Executive Director

CITY:

City of Berkeley, a California municipal corporation

By: _____

Name:

Title:

Approved as to Form:

By:

City Attorney

ATTEST:

_____, City Clerk

Registered:

_____, City Auditor

AMENDMENT TO THE DEVELOPMENT LOAN AGREEMENT

SANKOFA HOUSE

THIS AMENDMENT TO THE DEVELOPMENT LOAN AGREEMENT for 711 Harrison Street, with the original execution date of May 11, 2001 in the amount of \$304,250, ("Amendment") is made as of this _____ day of _____, 2014, by and between the City of Berkeley, a municipal corporation ("City"), and Building Opportunities for Self-Sufficiency, a California nonprofit public benefit California Corporation ("Borrower"). The City and the Borrower are collectively referred to as the "Parties."

RECITALS

WHEREAS, on May 9, 2000, by Resolution No. 60,552-N.S., the City Council authorized a Development Loan Agreement in the amount of \$304,250 between the City and Borrower, to facilitate Borrower's work serving homeless families at 711 Harrison Street ("Loan Agreement"; Contract No. 5268); and

WHEREAS, the Parties executed a first amendment to the Loan Agreement on January 2, 2004; and

WHEREAS, on _____, 2014, by Resolution No. XX-XXX-N.S., the City Council approved additional amendments to the each Contract cited above, as set forth below.

THEREFORE, the City and Borrower mutually agree to amend the Loan Agreement as follows:

1. Section II, Paragraph 3, is deleted in its entirety and replaced as follows:

"As of January 1, 2014, the loan shall bear a zero percent (0%) interest rate and shall be repaid in full in 30 years from the date of this Agreement, on or before May 11, 2031, the loan maturity date. In any given year during the Term, if the Project generates cash flow after payment of all operating expenses, any required reserve deposits, and mandatory debt service payments, if any, Borrower shall use 50% of such excess cash flow to make a loan repayment, and such payment shall reduce the principal amount of the loan."

2. The following paragraph is added as a new Section II, Paragraph 3, subsection (a):

The City forgives all unpaid interest accrued on the loan between May 11, 2001 and December 31, 2013.

In all other respects, the Loan Agreement remains in full force and effect.

IN WITNESS WHEREOF, the City and Borrower have executed this Amendment as of the date written on the first paragraph of this Agreement.

BORROWER:

Building Opportunities for Self-Sufficiency, a California nonprofit public benefit corporation

By:

_____, Executive Director

CITY:

City of Berkeley, a California municipal corporation

By: _____

Name:

Title:

Approved as to Form:

By:

City Attorney

ATTEST:

_____, City Clerk

Registered:

_____, City Auditor

AMENDMENT TO THE DEVELOPMENT LOAN AGREEMENT

SANKOFA HOUSE

THIS AMENDMENT TO THE DEVELOPMENT LOAN AGREEMENT for 711 Harrison Street, with the original execution date of May 11, 2001, in the total amount of \$634,000, ("Amendment") is made as of this _____ day of _____, 2014, by and between the City of Berkeley, a municipal corporation ("City"), and Building Opportunities for Self-Sufficiency, a California nonprofit public benefit California Corporation ("Borrower"). The City and the Borrower are collectively referred to as the "Parties."

RECITALS

WHEREAS, on February 13, 2001, by Resolution No. 60,941-N.S., Council authorized a Development Loan Agreement in the amount of \$296,000 between the City and Borrower, to facilitate Borrower's work serving homeless families at 711 Harrison Street ("Loan Agreement"; Contract No. 5269); and

WHEREAS, the Parties executed a first amendment to the Loan Agreement on January 2, 2004 (Contract No. 5269A); and

WHEREAS, on March 23, 2004, by Resolution No. 62,416-N.S., Council authorized a second amendment to the Loan Agreement that added \$338,000 to its value (Contract No. 5269B), which provided assistance for the construction of Sankofa House at the 711 Harrison Street site, which Borrower operates as transitional, supportive housing for homeless families; and

WHEREAS, the amended value of the Loan Agreement is \$634,000; and

WHEREAS, on _____, 2014, by Resolution No. XX-XXX-N.S., the City Council approved additional amendments to the each Contract cited above, as set forth below.

THEREFORE, the City and Borrower mutually agree to amend the Loan Agreement as follows:

1. Section II, Paragraph 3, is deleted in its entirety and replaced as follows:

"As of January 1, 2014, the loan shall bear a zero percent (0%) interest rate and shall be repaid in full in 30 years from the date of this Agreement, on or before May 11, 2031, the loan maturity date. In any given year during the Term, if the Project generates cash flow after payment of all operating expenses, any required reserve deposits, and mandatory debt service payments, if any, Borrower shall use 50% of such excess cash flow to make a loan repayment, and such payment shall reduce the principal amount of the loan."

2. The following paragraph is added as a new Section II, Paragraph 3, subsection (a):

The City forgives all unpaid interest accrued on the loan between May 11, 2001 and December 31, 2013.

In all other respects, the Loan Agreement remains in full force and effect.

IN WITNESS WHEREOF, the City and Borrower have executed this Amendment as of the date written on the first paragraph of this Agreement.

BORROWER:

Building Opportunities for Self-Sufficiency,
a California nonprofit public benefit
corporation

By: _____

_____, Executive Director

CITY:

City of Berkeley, a California municipal
corporation

By: _____

Name: _____

Title: _____

Approved as to Form:

By: _____

City Attorney

ATTEST:

_____, City Clerk

Registered:

_____, City Auditor

AMENDMENT TO THE DEVELOPMENT LOAN AGREEMENT

SANKOFA HOUSE

THIS AMENDMENT TO THE DEVELOPMENT LOAN AGREEMENT for 711 Harrison Street, with the original execution date of May 1, 2002, in the total amount of \$240,000, ("Amendment") is made as of this _____ day of _____, 2014, by and between the City of Berkeley, a municipal corporation ("City"), and Building Opportunities for Self-Sufficiency, a California nonprofit public benefit California Corporation ("Borrower"). The City and the Borrower are collectively referred to as the "Parties."

RECITALS

WHEREAS, by Resolution No. 61,433-N.S., Council authorized a Development Loan Agreement in the amount of \$150,000, between the City and Borrower, dated May 1, 2002, to provide predevelopment funding for new units at 711 Harrison Street ("Loan Agreement"; Contract No. 5648); and

WHEREAS, on July 15, 2003, by Resolution No. 62,184-N.S., Council authorized an amendment to the Loan Agreement that added \$90,000 to its value (Contract No. 5648A); and

WHEREAS, the amended value of the Loan Agreement is \$240,000; and

WHEREAS, on _____, 2014, by Resolution No. XX-XXX-N.S., the City Council approved additional amendments to the each Contract cited above, as set forth below.

THEREFORE, the City and Borrower mutually agree to amend the Loan Agreement as follows:

1. Section II, Paragraph 3, is deleted in its entirety and replaced as follows:

"As of January 1, 2014, the loan shall bear a zero percent (0%) interest rate and shall be repaid in full in 30 years from the date of this Agreement, on or before May 1, 2032, the loan maturity date. In any given year during the Term, if the Project generates cash flow after payment of all operating expenses, any required reserve deposits, and mandatory debt service payments, if any, Borrower shall use 50% of such excess cash flow to make a loan repayment, and such payment shall reduce the principal amount of the loan."

2. The following paragraph is added as a new Section II, Paragraph 3, subsection (a):

"The City forgives all unpaid interest accrued on the loan between May 1, 2002 and December 31, 2013."

In all other respects, the Loan Agreement remains in full force and effect.

IN WITNESS WHEREOF, the City and Borrower have executed this Amendment as of the date written on the first paragraph of this Agreement.

BORROWER:

Building Opportunities for Self-Sufficiency, a California nonprofit public benefit corporation

By:

_____, Executive Director

CITY:

City of Berkeley, a California municipal corporation

By:

Name:

Title:

Approved as to Form:

By:

City Attorney

ATTEST:

_____, City Clerk

Registered:

_____, City Auditor