



Office of the City Manager

ACTION CALENDAR
March 20, 2007

To: Honorable Mayor and
Members of the City Council

From: *PK* Phil Kamlarz, City Manager

Submitted by: Stephen Barton, Director, Housing

Subject: Amend Program Year 2006 Annual Action Plan

RECOMMENDATION

Adopt a Resolution amending the City of Berkeley's Program Year (PY) 2006 Annual Action Plan to enable the City to allocate Community Development Block Grant (CDBG) Funds from the Housing Trust Fund to Affordable Housing Associates, Inc., to complete rehabilitation work at 2121 7th Street, Allston House.

FISCAL IMPACTS OF RECOMMENDATION

Staff identifies \$136,700 in CDBG funds in the Housing Trust Fund Program that could be available for use in completing rehabilitation work at 2121 7th Street. These funds would replace General Funds that had been reserved in November 2006 by Council, reducing the need for General Funds to be allocated to the project. Further CDBG funds may be available at the start of Program Year 2007 (July 1, 2007) in the Housing Trust Fund as well which would reduce the need for General Funds still more. The act of amending the PY 2006 Annual Action Plan only makes it possible for the City to reserve CDBG funds in the Housing Trust Fund in compliance with HUD regulations, and does not constitute the act of funding reservation itself. Consequently, there would be no direct impacts to the City of Berkeley General Fund from amendment of the Program Year 2006 Annual Action Plan. The amendment would enable the City of Berkeley to allocate currently uncommitted and unreserved CDBG funds to a housing rehabilitation project that the Plan did not originally identify for such funding.

CURRENT SITUATION AND ITS EFFECTS

On November 14, 2006, the City Council approved a Housing Trust Fund (HTF) loan for Allston House, reserving the amount of \$789,546 in General Funds to cover a budget deficit that emerged after the U.S. Department of Housing and Urban Development rescinded Project-Based Section 8 housing assistance for this acquisition and rehabilitation project. Since then, Housing staff identified \$136,700 in Community Development Block Grant (CDBG) funds currently allocated to the Housing Trust Fund (that is, PY 2006 CDBG funds) and another \$400,000 in potential PY 2007 CDBG funds to the HTF that could be put toward the rehabilitation work. Thus, some \$536,700 in CDBG funds have been identified to replace some of the General Funds originally reserved for 2121 7th Street (Allston House). To completely cover the project's

rehabilitation budget deficit, the HTF loan reservation would include just \$252,846 in General Fund Reserves.

Rehabilitation work at 2121 7th Street is under way with completion anticipated in the summer of 2007. The total cost of the rehabilitation work is \$1.3 million. The project will incur approximately one-third of its total anticipated expenses, or approximately \$450,000, in the first two months of the construction period. AHA will use proceeds from its private loan from US Bank obtained in November 2006 to pay for the first \$500,000 in expenses. During April through June 2007, the developer will need to draw on approximately \$450,000 to \$500,000 of the HTF loan of \$536,700. In order for the project to utilize the PY 2006 CDBG funds, HUD has advised Housing staff to amend the PY 2006 Annual Action Plan to enable the City to use PY 2006 CDBG funds now in the Housing Trust Fund on Allston House rehabilitation work.

Should \$400,000 in CDBG funds be allocated by Council action to the Housing Trust Fund, the City has requested of HUD that the City be allowed to draw these funds down promptly in early to mid-May to enable rehabilitation work at Allston House to proceed uninterrupted. HUD has indicated in writing to City staff that the City can be reimbursed with PY 2007 CDBG funds beginning July 1, 2007, for expenses it incurs in support of a project like Allston House this spring.

BACKGROUND

Funding for rehabilitation work was originally arranged when the Berkeley Housing Authority allocated Project-Based Section 8 housing assistance to Allston House. With this reservation of assistance, Affordable Housing Associates, Inc., was able to secure a loan in the amount of \$7.3 million from U.S. Bank for site acquisition and rehabilitation work. However, in October 2006, HUD rescinded approval of the Project-Based Section 8 funding, creating a deficit of \$789,546 in Allston House's project budget.

The Program Year 2006 Annual Action Plan covers the period of July 1, 2006 through June 30, 2007. Rehabilitation funding for Allston House was not originally contemplated in the Program Year 2006 Annual Action Plan submitted by the City of Berkeley to HUD in May 2006. At that time, it was assumed that the rehabilitation work would be partially funded with Project-Based Section 8 housing assistance. But since HUD's rescission of these funds, a change in funding for a project mentioned in the current Annual Action Plan meets the threshold test for amending Annual Action Plans stated by HUD regulations.

RATIONALE FOR RECOMMENDATION

Adoption of the Resolution by Council will add language to the City's Annual Action Plan stating that PY 2006 CDBG funds may be provided to Affordable Housing Associates, Inc., to complete rehabilitation work at 2121 7th Street. Thus, if the City Council takes this action to fund completion of the Allston House rehabilitation work, it would comply with HUD regulations as well.

ALTERNATIVE ACTIONS CONSIDERED

The alternative action is to refrain from amending the Program Year 2006 Annual Action Plan and risk being out of compliance with HUD regulations.

CONTACT PERSON

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Lourdes Chang, Community Development Project Coordinator, Housing, 981-5419

Tim Stroshane, Senior Planner, Housing, 981-5422

Attachments:

1: Resolution

Exhibit A: Program Year 2006 Annual Action Plan Amendment

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

AMENDING THE CITY OF BERKELEY ANNUAL ACTION PLAN FOR PROGRAM YEAR 2006 TO ENABLE THE CITY TO PROVIDE COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS REMAINING IN THE HOUSING TRUST FUND TO AFFORDABLE HOUSING ASSOCIATES, INC., TO COMPLETE REHABILITATION OF 2121 7TH STREET, ALLSTON HOUSE, IN BERKELEY, AND INSTRUCTING THE CITY MANAGER TO COMPLETE AND PUBLISH THIS AMENDMENT FOR TRANSMITTAL TO THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT.

WHEREAS, on February 15, 2005, the Berkeley Housing Authority approved the allocation of 12 Project-Based Section 8 vouchers for Allston House at 2121 Seventh Street, in Berkeley, CA, through Berkeley Housing Authority Board Resolution No. 708; and

WHEREAS, in June 2006, the U.S. Department of Housing and Urban Development (HUD) informed the BHA that HUD would need to review and evaluate the applications for Project-Based Vouchers as set forth in the HUD program guidelines for the Project-Based Certificate Program; and

WHEREAS, on August 7, 2006, upon HUD completion of its review of the applications, HUD informed the BHA that Allston House did not meet threshold requirements and selection criteria for the program, and would not be eligible for any project-based voucher assistance; and

WHEREAS, on October 20, 2006, HUD made its final decision to deny approval of project-based assistance to Allston House, after it had agreed to give the project special consideration since it was a preservation project with all its funding commitments in place; and

WHEREAS, the loss of Project-Based Section 8 vouchers resulted in a funding gap of approximately \$789,546 for the project and unless another funding source is identified to fill the gap, the loss of project-based assistance as a source of permanent financing would place Affordable Housing Associates, Inc. (AHA) at risk of losing other funding reservations for Allston House and future affordable housing projects and would lead to the loss of forty-seven apartments for low and moderate income families and individuals by November 30, 2006, when its permanent loan with U.S. Bank was to close escrow; and

WHEREAS, on November 2, 2006, the Housing Advisory Commission recommended approval of staff recommendation to reserve a Housing Trust Fund loan in the amount of \$789,546 to Allston House outside the normal funding cycle in order to save the project and its forty-seven (47) units of permanently affordable housing; and

WHEREAS, the Berkeley City Council adopted Resolution No. 63,487-N.S. on November 14, 2006 to reserve funds in the amount of \$789,546 from the Housing Trust Fund as a permanent loan for Allston House; and

WHEREAS, the City has identified Community Development Block Grant (CDBG) funds now in the Housing Trust Fund as a potential source of funds to help AHA complete rehabilitation of Allston House; and

WHEREAS, the City's Program Year 2006 Annual Action Plan (covering the period July 1, 2006 to June 30, 2007) does not currently state that CDBG funds could be allocated to AHA through the Housing Trust Fund to help complete rehabilitation of Allston House at 2121 Seventh Street; and

WHEREAS the City must amend its Program Year 2006 Annual Action Plan to enable the City to allocate funds to AHA through the Housing Trust Fund to help complete rehabilitation of Allston House at 2121 Seventh Street because it represents a significant change in method of funding allocation, and in order to comply with HUD regulations.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City of Berkeley Annual Action Plan for Program Year 2006 be amended to enable the City to provide PY 2006 Community Development Block Grant funds remaining in the Berkeley Housing Trust Fund to Affordable Housing Associates, Inc., to help complete rehabilitation of 2121 7th Street, Allston House; and

BE IT FURTHER RESOLVED, that the City Manager shall complete and publish this amendment in the Program Year 2006 Annual Action Plan for Berkeley and transmit the amendment to the U.S. Department of Housing and Urban Development.

Exhibits

A: Program Year 2006 Annual Action Plan Amendment

EXHIBIT A
Program Year 2006 Annual Action Plan Amendment

Edit page 7, under “1. Housing Development, a. General, add the following sentence:

One of the two existing affordable housing complexes to be acquired and rehabilitated during PY 2006 is Allston House at 2121 7th Street, containing 47 units. Affordable Housing Associates, Inc., should acquire this property in PY 2006, and begin rehabilitation work. The City anticipates that CDBG funds allocated to the Housing Trust Fund may be needed to help finance rehabilitation work during PY 2006, and which could be finished by the summer of 2007.