



Office of the City Manager

CONSENT CALENDAR
February 12, 2008

To: Honorable Mayor and Members of the City Council

From: Phil Kamlarz, City Manager

Submitted by: Rae Mary, Interim Director, Housing

Subject: Approval of Additional Funds for Permanent Financing for University Avenue Senior Housing

RECOMMENDATION

Adopt a Resolution to approve the allocation of an additional \$200,000 from the City's Housing Trust Fund to the University Avenue Senior Housing project for permanent financing and authorize the City Manager to amend the existing development loan agreement for the previously approved \$1.9 million loan to reflect the new loan amount of \$2.1 million.

FISCAL IMPACTS OF RECOMMENDATION

University Avenue Senior Housing (UASH) has a \$200,000 gap in its permanent financing. Staff is recommending to allocate \$200,000 from the Housing Trust Fund to the project and to increase the existing \$1.9 million Housing Trust Fund loan by \$200,000, for a total loan amount of \$2.1 million. This increase in the loan amount will be funded from the FY 2008 General Fund Allocation for affordable housing projects (budget code 610-8151-463-99-22).

CURRENT SITUATION AND ITS EFFECTS

On April 9, 2007, Satellite Housing Inc., the project sponsor, submitted a request to convert \$200,000 of its HELP loan into permanent financing to fill a funding gap for UASH, the 80-unit new construction affordable senior housing development located at 1531 University Avenue, also known as Helios Corner. The funding gap of \$200,000 was a result of occurrences completely out of Satellite's control: (1) a decrease in the Fair Market Rents for the 40 Project-Based Section 8 units reduced the amount of the permanent loan available to the project by \$150,000; and (2) rain delays during the first four months of the construction period resulted in an increase in the contractor's general conditions of \$50,000 (these are payments to the contractor that are required per the general contractor agreement).

Since the HELP loan is a short-term loan that the City must repay to the California Housing Financing Agency (CalHFA) by September 2010, it cannot be converted into a permanent source of funding for the project. As an alternative, the Housing staff

recommended to increase the amount of the existing \$1.9 million Housing Trust Fund loan by \$200,000, increasing the total loan amount to \$2.1 million.

At the time of Satellite's request, the City did not have the funds available in the Housing Trust Fund to increase the loan amount. As an interim solution, the Housing Director approved the extension of the repayment term for the HELP loan until such time as additional funds were available from the Housing Trust Fund. When the funds became available, the City would consider increasing the existing HTF loan by \$200,000; thus, providing UASH the funds to repay the HELP loan and at the same time, provide a permanent source of funding for the project. In May 2007, staff submitted a report to inform the HAC that the HELP loan repayment term would be extended and that at a future date, the staff would bring back to the HAC a request to increase the existing HTF loan to create a permanent source of funds for the project. On December 6, 2007, staff took a recommendation to the HAC to approve the additional \$200,000. The HAC unanimously approved staff recommendation to approve the allocation of the additional funds and to increase the amount of the existing HTF loan to \$2.1 million.

BACKGROUND

Satellite Housing Inc., the nonprofit project sponsor, has carefully developed University Avenue Senior Housing (UASH) to require the least possible amount of financial resources from the City. In order to first secure the site, Satellite successfully acquired the parcel at a purchase price below competing offers. To capitalize upon this opportunity, Satellite secured financing from the Local Initiatives Support Corporation, Northern California Community Loan Fund and the Low-Income Investment Fund.

To supplement the City funds that was later awarded to the project, Satellite successfully secured \$12.8 million in nine percent low-income housing tax credit equity, \$720,000 in Affordable Housing Program funds from the Federal Home Loan Bank and \$5.79 million in permanent mortgage financing from Silicon Valley Bank (SVB). The SVB Section 8 loan commitment is based, in part, on the HUD fair market rents (FMRs). At the time of the construction closing in October 2005, the HUD FMR's for the area were 110% of the 50th percentile rents. In 2006, HUD unexpectedly lowered the rents to 110% of the 40th percentile rents. The chart below shows the 2005 and 2006 FMR's.

Unit Type	Fair Market Rents	
	2005	2006
Efficiency/Studio	\$1,005	\$961
1-bedroom	\$1,216	\$1,160
2-bedrooms	\$1,439	\$1,375

This unforeseen and uncontrollable reduction in FMRs modified SVB's underwriting assumptions and ultimately resulted in a \$150,000 reduction in the permanent mortgage financing for the development.

Based on the requirements of the project's tax credit funding, Satellite began construction of UASH during Fall 2005 and experienced the rainiest winter in the area's history. Despite completing only one percent of construction progress in each of the first four months of construction, Satellite and its construction team has worked tirelessly to fulfill its commitment to deliver the project's affordable housing by this summer. Satellite will achieve this goal without any sacrifice to the quality of the project's construction. Unavoidably, the weather delays did result in an increase in the contractor's general conditions of \$50,000.

Despite these challenges, UASH was completed in July 2007 and is scheduled to close on its permanent financing by the end of December 2007. The design and construction of the project is of a quality comparable to the finest market rate housing developments that have been built in the City. Satellite has managed all aspects of the project with care and diligence and addressed all other adversity the project has experienced previously with its own resources. It is only due to facts outside of Satellite's control (the change in FMR's and extraordinary weather delays) and the fact that the project has successfully secured funding from all other available sources that Satellite is requesting assistance from the City.

RATIONALE FOR RECOMMENDATION

Knowing that the City has limited resources for funding affordable housing, Satellite has been successful at minimizing the amount of City subsidy required for the project. When including the current request for the additional \$200,000, the City will have provided \$2.1 million in permanent financing to support UASH's 80 units. This equates to City funding of approximately 10% of total project cost, or \$26,250 per unit, which is substantially lower than the subsidy provided to other City-assisted housing projects.

ALTERNATIVE ACTIONS CONSIDERED

None. Without the commitment of the additional \$200,000 from the City's Housing Trust Fund, UASH would not have the funds to repay the short-term HELP loan and there would be a gap in its permanent financing.

CONTACT PERSON

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Attachments:

1: Resolution

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

APPROVE ALLOCATION OF AN ADDITIONAL \$200,000 IN HOUSING TRUST FUNDS FOR THE DEVELOPMENT OF THE UNIVERSITY AVENUE SENIOR HOUSING PROJECT AND EXECUTE AN AMENDMENT TO THE UNIVERSITY AVENUE SENIOR HOUSING DEVELOPMENT LOAN AGREEMENT TO INCREASE THE LOAN FROM \$1.9 MILLION TO \$2.1 MILLION

WHEREAS, the City Council established a Housing Trust Fund Program to assist in the development and expansion of housing affordable to low income persons who either work or reside in Berkeley, and authorized the City Manager to implement the 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's Consolidated Plan submitted to the Federal Department of Housing and Urban Development; and

WHEREAS, the University Avenue Senior Housing (UASH) project will provide affordable and special needs housing opportunities to the City's residents; and

WHEREAS, Satellite Housing, Inc., as the project sponsor for UASH, requested to increase the existing Housing Trust Fund Loan by \$200,000 to cover a gap in UASH's permanent financing; and

WHEREAS, Satellite Housing, Inc. was successful at minimizing the amount of City subsidy required throughout development of the project; and

WHEREAS, the gap was due to circumstances beyond Satellite Housing's control and Satellite Housing is now asking for additional assistance after it has exhausted all other sources of funding; and

WHEREAS, on December 6, 2007, the Housing Advisory Commission approved staff's recommendation to increase the amount of the existing HTF loan by \$200,000 to cover UASH's permanent financing gap.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that it approves the allocation of an additional \$200,000 from the City's Housing Trust Fund to the University Avenue Senior Housing project for permanent financing and that it authorizes the City Manager to execute an amendment to the HTF Development Loan Agreement (Contract No. 6809) to increase the existing \$1.9 million HTF loan by \$200,000, making the new loan amount \$2.1 million.