



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Shola Olatoye
Director, HCD

SUBJECT: 7th & Campbell Affordable Housing
\$2,200,000 Unsecured
Predevelopment Loan

DATE: May 4, 2020

City Administrator Approval

Date: May 27, 2020

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Authorizing The Increase Of An Unsecured Predevelopment Loan To Oakland And The World Enterprises, Inc. And McCormack Baron Salazar, Or Affiliated Entities, To Support The Development Of Affordable Housing At The 7th & Campbell Project Site By \$1,550,000 From The Previously Approved \$650,000 To A Total Predevelopment Loan Amount Not To Exceed \$2,200,000; And Making California Environmental Quality Act Findings For This Action.

EXECUTIVE SUMMARY

Adopting the proposed resolution would authorize the increase of a previously approved predevelopment loan in the amount of \$650,000 with Oakland & the World Enterprises, Inc. (OAW) and McCormack Baron Salazar (MBS), or affiliated entities, (Developer) for the 7th and Campbell Project (the Project) in West Oakland by \$1,550,000 to a total not to exceed amount of \$2,200,000. Funding for this predevelopment loan has already been committed to the project through two Notice of Funding Availability processes, one in 2017 in the amount of \$801,900 and one earlier this year in the amount of \$1,613,000.

The predevelopment loan would be used to cover eligible predevelopment expenses to permit the Project to apply for four percent Low Income Housing Tax Credits and begin construction within the required 180 or 194 day period following an award of tax credits. Since the City owns the parcels currently, the loan cannot be secured against the property. Therefore, staff is recommending approval of an unsecured loan, which will be converted to permanent, secured financing once the property is conveyed to the Developer.

BACKGROUND / LEGISLATIVE HISTORY

Legislative History

Between 2001 and 2003, the Redevelopment Agency (the Agency) made loans totaling \$689,598 to Oakland Community Housing, Inc. (OCHI) for the purchase of five of the six parcels that comprise the 7th and Campbell site under the Agency's Affordable Housing Site Acquisition Program. In 2007, OCHI became insolvent and was dissolved; as a result they could neither

City Council
June 2, 2020

develop nor sell these parcels, nor repay the defaulted Agency loans or a loan with the Local Initiatives Support Corporation (LISC).

Housing and Community Development (HCD) staff took appropriate measures to facilitate the transfer and development of the 7th and Campbell sites in collaboration with Economic Development staff; however, the dissolution of redevelopment agencies statewide in 2012 impeded the Agency's ability to clear the liens and seek development proposals for the property. In June 2013, the City, as the successor to the Agency, foreclosed on the LISC loan to secure ownership over the property. A subsequent foreclosure sale cleared up a clouded title issue on one of the parcels.

In Fall 2014, OAW approached the City with a proposal for a development project on the site that would include: affordable housing, an urban farm, and supporting retail/commercial space uses, with a special focus on providing housing and employment/training opportunities for formerly incarcerated residents seeking to re-enter the community successfully. OAW currently operates the site with an urban farm.

On January 20, 2015, pursuant to City Council Resolution No. 85373 C.M.S., the City Council authorized entering into an Exclusive Negotiating Agreement (ENA) with OAW to refine the development program.

On July 18, 2017, per City Council Ordinance No. 13450 C.M.S, following the project obtaining clearance under the California Environmental Quality Act (CEQA), the City Council authorized the City Administrator to enter into a Disposition and Development Agreement (DDA) and approved a waiver of the City's 2014 ground lease preference policy in order to pursue a DDA and fee sale of the property.

On December 18, 2017, City Council approved Resolution No. 87019 C.M.S., which included \$801,900 in funding for the 7th and Campbell affordable housing development through the City's 2017-2019 Notice of Funding Availability (NOFA) process for New Construction of Affordable Housing. At that time, OAW had selected Community Housing Development Corporation (CHDC) as its co-developer, and they jointly submitted the application for City development funding.

In early 2018, OAW began taking steps to partner with developer McCormack Baron Salazar (MBS), replacing CHDC. On April 17, 2018, pursuant to City Council Resolution No. 87131 C.M.S., MBS was approved as the Project's co-developer.

On July 9, 2019, City Council approved Resolution No. 87775 C.M.S., which provided for an unsecured predevelopment loan in the amount of \$650,000, thereby advancing previously awarded funds through the 2017-2019 NOFA process.

On January 21, 2020, City Council approved Resolution No. 87994 C.M.S., which included \$1,613,000 in additional funding for the 7th and Campbell affordable housing development through the City's 2019 NOFA process for New Construction of Affordable Housing.

ANALYSIS AND POLICY ALTERNATIVES

Site Description and Surrounding Uses

The 7th & Campbell site is approximately 0.71 acres. The area immediately surrounding the Project site is a mixture of vacant lots and residential and commercial uses. Immediately to the west is Slim Jenkins Court, a multi-family rental property with ground floor retail space, and further west are retail establishments, including the historic Esther's Orbit Room. Behind the site towards 8th Street are primarily single-family homes. Across 7th Street is the main Oakland U.S. Postal Service sorting facility. The West Oakland Bay Area Rapid Transit (BART) station is approximately 0.30 miles to the east.

Development and Financing Plans

The ENA between the City and OAW was intended for the purpose of studying and evaluating the feasibility of the development and negotiating the terms and conditions of the proposed Project. The ENA period, including the six-month administrative extension, expired effective January 20, 2016. OAW opted to pursue approval for entering into a DDA, rather than having the ENA extended.

During the ENA period, OAW proposed the development of 79 housing units for low-income individuals and families, and commercial space including space for incubator business enterprises slated for ownership by economically marginalized people, including a rooftop urban farm. The Project will target individuals and families earning 20 percent to 60 percent of area median income with 39 of the units set aside for permanent supportive housing. Case management services for formerly homeless people will be provided by Building Opportunities for Self-Sufficiency (BOSS), which has over 30 years of experience in delivering case management services. A focus of the development is on training, employment, and housing options for the formerly incarcerated.

OAW applied for City funding in two subsequent NOFAs, as follows:

- 2017-2019 NOFA, to match funding from Alameda County Measure A1 funding. An award of \$801,900 was approved by the City Council in December 2017.
- 2019 NOFA, to partially fill the remaining funding gap. An award of \$1,613,000 was approved by the City Council in January 2020.

In addition to the aforementioned City funds totaling \$2,414,900, the Project has received funding from Alameda County Measure A1 (\$12,688,996), and the State of California Supportive Housing Multifamily Housing Program (\$8,750,000). The remaining funding to complete the Project includes four percent Low Income Housing Tax Credits and pending applications submitted to the Affordable Housing Program (AHP), the State of California Infill Infrastructure Grant Program, and Apple Inc.

The DDA was executed between the City, OAW and MBS in March 2020. Construction is anticipated to commence in 2021.

Predevelopment Loan Request

The current request to increase the availability of predevelopment funds from already awarded City funding is based on the Project's need to cover eligible predevelopment expenses that will permit the Project to apply for four percent Low Income Housing Tax Credits and begin construction within the required 180 or 194 day period following an award of tax credits. Since

the City owns the parcels, it is not possible to obtain traditional sources of predevelopment financing.

Attachment A, the 7th and Campbell Predevelopment Loan Budget, shows the projected expenditures to be covered by the predevelopment loan. Proposed expenditures include permitting fees, architectural and engineering fees, and legal costs.

The existing \$650,000 predevelopment loan is unsecured since the City owns the parcels and thus it cannot be secured against the property currently. The loan documents will be amended and restated to increase the face value by \$1,550,000 to a total of \$2,200,000. All other terms of the loan will remain the same, including the 18-month term (with a six-month extension available as an administrative action) at three percent simple interest, with interest and principal payments deferred to the end of the term.

The loan will be converted to permanent, secured financing upon conveyance of the property to OAW/MBS, to occur at the closing of construction financing.

While the City's over-the-counter Predevelopment Loan Program provides for unsecured loans, the proposed request to increase the predevelopment loan is substantially larger than what would be allowed under the City's program (which allows for a maximum loan of \$50,000). Given the complexity of the Project, the historic challenges this site has faced, and the impracticality of seeking standard secured predevelopment loans, staff recommends making these adjustments to the standard Predevelopment Loan Program terms.

The Project will provide critically needed affordable housing serving a range of incomes, including households earning 20 percent and 30 percent of area median income. The proximity of the site to public transportation make it an opportune development site. With the City's significant housing crisis worsening as a result of the COVID-19 pandemic, the ability to advance this project into construction as soon as possible is of paramount importance.

FISCAL IMPACT

On December 18, 2017, City Council approved \$801,900 in funding for the Project, from the Measure KK Housing and Infrastructure Bond (Fund 5331). This funding is set aside for the Project.

On January 21, 2020, City Council approved \$1,613,000 in additional funding for the Project, from the Affordable Housing Trust Fund (Fund 1870). This funding is set aside for the Project.

OAW and MBS will be applying for four-percent tax credits in the Fall of 2020 and have submitted multiple applications to assemble the remaining financing. The provision of the predevelopment funds will facilitate their ability to complete this process.

PUBLIC OUTREACH / INTEREST

OAW has met with and had extensive follow-up discussions with local elected officials and community organizations regarding its development plans for the site and hosted a well-

attended community meeting to discuss plans for the site. During the West Oakland Specific Plan process (the plan was adopted in 2014), advocates at nearly every community meeting and public hearing stressed the need for affordable housing and employment/training opportunities for West Oakland residents, to which OAW's proposed development would clearly respond.

COORDINATION

This staff report and legislation have been reviewed by the Office of the City Attorney and by the Budget Bureau.

SUSTAINABLE OPPORTUNITIES

Economic: The proposed development will complement and increase housing (including affordable housing units) in Oakland and in the West Oakland 7th Street neighborhood, provide employment and training opportunities for the formerly incarcerated to ensure their successful re-entry into the community, as well as providing neighborhood-serving retail.

Environmental: The proposed development is close to transit (including the West Oakland BART station) and will include components designed to increase neighborhood access to healthy food.

Race & Equity: The temporary urban farm use has already substantially improved the previously vacant, underutilized and occasionally blighted site, as well as provided jobs for farm workers. The proposed development would provide a positive stimulus to the neighborhood and include much-needed affordable housing, neighborhood-serving retail and economic opportunities for vulnerable populations that were major priorities expressed by community members for decades, including fulfilling many of the social equity goals of the West Oakland Specific Area Plan adopted in 2014.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA)

Under the California Environmental Quality Act (CEQA), the City is required to review possible environmental impacts of all projects prior to a definitive commitment of funding, unless the Project is exempt from CEQA review. After a detailed CEQA Analysis, the City found that a Notice of Exemption (NOE) for the development project for the predevelopment loan was appropriate. The NOE was approved and ultimately filed on July 3, 2017 under the California Environmental Quality Act (CEQA) on the basis that the Project: (1) is consistent with a Community Plan, General Plan, or Zoning (CEQA Guidelines Section 15183), (2) met the requirements for streamlining of infill projects (CEQA Guidelines Section 15183.3), and (3) qualifies for the Infill Projects exemption (CEQA Guidelines Section 15332).

Under CEQA Guidelines Section 15162, no subsequent environmental review is required unless the project has changed substantially, the circumstances under which the project would occur

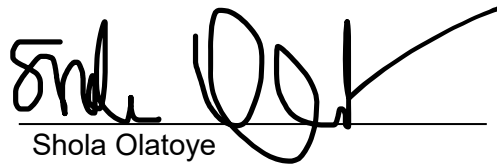
have changed substantially, or new information demonstrates that any potential environmental impacts would be substantially more severe than previously demonstrated.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Adopt A Resolution Authorizing An Unsecured Predevelopment Loan To Oakland And The World Enterprises, Inc. And McCormack Baron Salazar, Or Affiliated Entities, To Support The Development Of Affordable Housing At The 7th & Campbell Project Site By \$1,550,000 From The Previously Approved \$650,000 To A Total Predevelopment Loan Amount Not To Exceed \$2,200,000; And Making California Environmental Quality Act Findings For This Action.

For questions regarding this report, please contact Christia Katz Mulvey, Housing Development Coordinator, at (510) 238-3623.

Respectfully submitted,



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Director, HCD

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Attachment (1):

Attachment A: Predevelopment Loan Budget