



CITY OF OAKLAND

AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Shola Olatoye
Director, HCD

SUBJECT: 6106-6108 Hilton Street Additional Funding **DATE:** September 11, 2020

City Administrator Approval

Date **Sept. 23, 2020**

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Authorizing The Increase Of An Existing Acquisition And Conversion Loan To The Northern California Land Trust, Inc. By \$213,737 For A Total Acquisition And Conversion Loan In An Amount Not To Exceed \$2,613,737 For The 6106-6108 Hilton Street Anti-Displacement Affordable Housing Project, And Making California Environmental Quality Act Findings For This Action.

EXECUTIVE SUMMARY

Staff recommends that the Oakland City Council (the Council) adopt a resolution to amend the existing loan to The Northern California Land Trust, Inc. (NCLT) for 6106-6108 Hilton Street Anti-Displacement Affordable Housing (the Project) to provide additional funding of \$213,737. The amendment will fund an unforeseen gap related to the payment of prevailing wages and thereby facilitate rehabilitation activities at the property that will ensure its long-term viability and the preservation of the Project as affordable housing.

BACKGROUND/LEGISLATIVE HISTORY

The Project is a sixteen (16) unit apartment complex located at 6106-6108 Hilton Street in the Seminary neighborhood of Council District 6. The Project consists of two (2) buildings containing eight (8) units each. NCLT purchased the property from an owner who had planned to reposition the property by buying out residents, conducting a cosmetic rehabilitation of the buildings and re-leasing the units at more than double the current rents.

In June 2017, pursuant to Council Resolutions No. 86774 C.M.S. and No 86814 C.M.S., the City identified programs authorized to receive funding from Measure KK bonds to support affordable housing and approved estimated allocations to those programs in a total amount of \$55 million, subject to the City Administrator's authority to adjust estimated allocations to meet demand,

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October 6, 2020

community need, and timely expenditure of funds. The City issued the first tranche of Measure KK Bond funds under the "Site Acquisition Program" in 2018 by providing five (5) loans totaling \$15.65 million to preserve existing properties for long-term affordable housing and prevent displacement.

In October 2019, the City of Oakland adopted Resolution No. 87876 C.M.S, in which the Site Acquisition Program was renamed to the Acquisition and Conversion to Affordable Housing (ACAH) Program to finance the purchase of existing market rate buildings in the real estate market, for the purpose of conversion to restricted affordable housing. Resolution No. 87876 C.M.S. authorized the City Administrator to select borrowers and execute loans under the ACAH Program in an amount not to exceed \$30 million without returning to Council.

The first two ACAH Notices of Funding Availability (NOFAs) were released on December 6, 2019. One of the NOFAs was in the amount of \$12 million and was intended for community land trusts and cooperatives to promote the City's goal of resident ownership. The second of the two NOFAs, in the amount of \$18 million, was intended for general acquisition projects for affordable housing. Through the NOFAs, nearly \$24 million has been awarded to or held in reserve for developers to acquire and rehabilitate existing, occupied properties. Approximately \$5.5 million of the \$24 million has been awarded to community land trusts and cooperative ownership organizations proposing to convert units to affordable homeownership units to existing tenants, thereby promoting the City's goal of encouraging homeownership.

NCLT was awarded \$2.4 million under the ACAH program to be used solely for the acquisition of the property, which is the maximum award for the Project (\$150,000 per unit). The rehabilitation was intended to be solely funded by the Low Income Investment Fund (LIIF) and Enterprise Community Loan Fund. NCLT did not plan for the Project to be subject to prevailing wage requirements, as it is a small project undergoing a moderate rehabilitation that will not be funded by the City. However, the Project is subject to State prevailing wage rates, leaving the Project with a funding gap of \$213,737. **Attachment A** includes the project budget increase with prevailing wages taken into account.

ANALYSIS AND POLICY ALTERNATIVES

One of the key features of the ACAH program is the focus on taking properties off of the speculative market and promoting resident ownership. The 6106-6108 Hilton Street Anti-Displacement Affordable Housing Project is just such an opportunity. Subsequent to acquisition, NCLT will rehabilitate the property, stabilize rents, and provide the opportunity for the Project to become a cooperative owned by the tenants. Tenants interested in becoming homeowners can take part in training and technical assistance programs related to homeownership to prepare for conversion to an ownership model. Funding for the Project includes City of Oakland ACAH funds for acquisition and a loan from Enterprise and LIIF to cover the rehabilitation costs.

The proposed renovation includes significant deferred maintenance. Interior upgrades will include plumbing replacements, electrical upgrades, patching and painting of interior finishes

and mildew abatement. Exterior upgrades will include concrete and fencing repairs, seismic strengthening, and repair of stairs to comply with current code requirements.

The City and NCLT explored whether the Project could utilize its modest capitalized reserve accounts to fund the cost of State prevailing wage requirements being applied to the Project. However, LIIF and Enterprise are requiring the capitalization of the reserves be retained.

In order to preserve the deal, NCLT is using its own organizational reserves to temporarily fund the gap. However, the organization cannot cover the gap over the long-term. In accordance with Resolution No. 87876 C.M.S., which established the ACAH Program, there is not a maximum per project loan amount for the ACAH program. However, in order to provide loans to a number of projects, the ACAH NOFA released in December 2019 included per unit/project loan limits. Since NCLT is already at the maximum loan amount allowed under the ACAH NOFA, Council approval is required for increasing the loan limits outside of a new NOFA process. In the interests of time, staff opted to take the recommendation to Council for approval.

Staff is currently engaged with other ACAH program borrowers for a full analysis of any remaining gaps for other projects. Since developers with more experience working with public financing, as well as those with significant City-financed rehabilitation budgets, are already including prevailing wage in their budgets, the impact is expected to be minimal, and in a few cases may be covered by non-City sources. Due to the urgency of closing this loan, Council is asked to undertake additional funding for the NCLT project, from a non-Measure KK funding source.

FISCAL IMPACT

Staff proposes utilizing funding from the Boomerang portion of the Affordable Housing Trust Fund (AHTF) (Fund 1870, Project 1000386) to cover the additional \$213,737 in loan funds needed to close the gap for the Project. Although the initial \$2.4 million acquisition loan was funded via Measure KK funds (Fund 5331), it was deemed advisable that the additional loan amount be funded by a non-Measure KK source. The Boomerang portion of the AHTF is the City's share of the former Redevelopment Agency tax increment, twenty-five percent (25%) of which is allocated to affordable housing projects. Allocating additional funds will allow NCLT to maintain their organizational reserves and use them to invest in other properties in the future. NCLT will repay the loan of ACAH program funds awarded to the Project from their initial award and the proposed award of supplemental funds, if awarded, from the Project's residual receipts. Residual receipt payments can be used by the City to provide additional capital funding for new affordable developments.

PUBLIC OUTREACH/INTEREST

Measure KK Bonds were approved by Oakland voters in 2016, and the City has since established an Oversight Committee to monitor spending under the bond. City staff have met with Oversight Committee members, and developers in both the general and land

trust/cooperative pools in order to discuss the features of the ACAH program. NCLT has communicated with all residents and have met one-on-one with a supermajority. All of the households have expressed strong support for the acquisition.

COORDINATION

Housing and Community Development staff has coordinated with the City Attorney's Office and Budget Bureau in preparation of this report and resolution.

SUSTAINABLE OPPORTUNITIES

Economic: Allocating additional funds to NCLT for the rehabilitation of the Project will facilitate the rehabilitation of the property with contractors that are paid prevailing wages and potentially provide homeownership opportunities for the current tenants.

Environmental: The Project is in close proximity to mass transit, which will enable residents to reduce dependency on automobiles and further reduce any adverse environmental impacts of development.

Race & Equity: Affordable housing is a means of achieving greater social equity. The Project will provide affordable rental housing for low-income residents in East Oakland which is often underserved. Demographically, the vast majority of tenants identify as Latinx or Persons of Color (POC) headed households, and at least nine (9) out of sixteen (16) households have children under seventeen, three (3) households have disabled family members, and two (2) households are senior households. In addition, the land trust model will enable some of THE tenant households to become homeowners, without displacing any renter households.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA)

This action is exempt under the California Environmental Quality Act (CEQA), specifically CEQA Guidelines Sections 15301 (Existing Facilities), 15326 (Acquisition of Housing for Housing Assistance Programs) and 15183 (Projects consistent with a Community Plan, General Plan, or Zoning).

ACTION REQUESTED OF THE CITY COUNCIL

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For questions regarding this report, please contact Vanessa Kennedy at 510-238-6177 or Christia Katz Mulvey at 510-238-3623.

Respectfully submitted,



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Attachments (1):
A: Project Development Budget