



Berkeley Housing Authority

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Item 7B
NEW BUSINESS
June 27, 2023

Office of the Executive Director

To: Honorable Chair and Members of the Berkeley Housing Authority Board

From: James Williams, Executive Director

Subject: Approve an Extension of the Project-based Master HAP Contract Adeline Street Apartments for a period of 10 years (2023 - 2033)

RECOMMENDATION

Extend the existing Project-based Master HAP contract for 18 units at Adeline Street Apartments for a period of an additional 10 years, resulting in an initial term of 10yrs and cumulative extensions of 20yrs, for a total contract term of 30 yrs.

BACKGROUND

The Project-based Section 8 Program is designed to provide guaranteed housing options for households that qualify for the Section 8 Program, often with social services components available to the residents, and housing populations with special needs (homeless, seniors, disabled, youth emancipated from the foster care system, etc.). With the Project-based Section 8 program, the subsidy is attached to a unit for a fixed period of time.

The Project-based program allows developers to leverage other financing options using the long term rent subsidy commitment from the housing authority. The financing is used to either build new construction housing, or to rehabilitate existing housing. Project-based housing also has the benefits of increasing housing supply, guaranteed earned administration fee, and easing fluctuations in low income affordable housing options during high rental markets, since the PBV units do not “compete” in the open market for tenants. In the Tenant-based program, the assistance is tied to the family, responsible for finding a unit of their choosing.

First awarded Project-based Vouchers in 2001, effective in 2003, Adeline Street Apartments (at Adeline and Harmon) houses very low-income households with physical disabilities and people with HIV/AIDS. All units are fully accessible for people with disabilities in compliance with Section 504 of the Rehabilitation Act. Adeline Street Apartments has an on-site Resident Manager to support its residents on an as-needed basis. The term of the initial Housing Assistance Payment (HAP) Agreement between Adeline Street Apartments, LP and BHA was for a 10-yr term period commencing in April of 2003. BHA approved two subsequent extensions to the HAP for 5yr periods each from 2013-2018 and subsequently from May 1, 2018 to April 30, 2023.

Pursuant to Chapter 17-PBV of BHA's Administrative Policy, BHA may extend the term of the contract administratively, without an open competition, for an additional term of up to 20 years if BHA determines an extension is required to secure funding to perform substantial, unanticipated rehabilitation. Subsequent extensions are subject to the same limitations. Extensions of master HAP contracts will be considered on a case by case basis, including whether (a) to extend for a full 20 years or a shorter timeframe, and (b) the need for substantial, unanticipated rehabilitation to preserve and/or extend the viability of the housing stock.

When determining whether or not to extend an expiring PBV contract, for how long, and the number of units, BHA will consider several factors including, but not limited to:

- The cost of extending the contract and the amount of available budget authority;
- The condition of the contract units;
- The owner's record of compliance with obligations under the HAP contract and lease(s);
- Whether the location of the units continues to support the goals of deconcentrating poverty and expanding housing opportunities;
- The extent to which projects that are serving families, elderly or disabled household include 1, 2, and 3 bedroom units
- Demonstrated need of the minimum number of project based vouchers required to (i) finance debt for substantial, unanticipated rehabilitation activity and (i) meet contractual obligation to rent to households at or below 50% of AMI.
- Preservation of fully accessible/adaptable units for wheelchair users; and,
- Whether the funding could be used more appropriately for project-based assistance at additional new construction projects, whether partially or completely owned by BHA, or another property requesting/needing PBV assistance, or in the tenant based voucher program.

BHA's Administrative Plan, Chapter 17: Project-based Voucher Program, describing how BHA is to consider requests for extensions of master HAP contracts is attached as Attachment 1. BHA has 98 PBVs remaining currently (the calculation of 98 remaining takes into account the 18 PBVs allocated to Adeline Street Apartments, and 59 PBVs recently awarded in the Oct 2022 RFP). As shared previously we could increase our PBV allocation by an additional 20% of our ACC or 395 PBVs through our MTW designation.

Adeline Street Apartments, L.P., and its development sponsor, Resources for Community Development ("RCD"), sent a letter (Attachment 3) to BHA of their desire for an extension of the Master HAP contract to increase financial leveraging of the project and permit a rehab that will address current critical property needs and extend the life of the property to continue to serve its resident community and subsequently submitted documents requested by BHA to consider an extension.

STATUS

Adeline Street Apartments, L.P., submitted a request for a 20-year extension for all 18 units (Attachment 3), citing the fact that the PBVs allow the property to house people with disabilities at the lowest income levels—with an average income of 12,720 per year, as well as allows the continuation of the extensive social service provision at Helios.

Pursuant to BHA's Administrative Plan, *without an open competition*, BHA, subject to Board approval, can only extend the HAP contract for an additional 10yrs since two 5yr extensions were already granted in 2013 and again in 2018, resulting in a cumulative extension of 20 years. Extending the

PBV contract for another 10 years will allow Adeline Street Apartments, L.P., to keep the property safe and in good working order for the future, and for the long-term recapitalizing and renovation of the property. The property is currently 20 years old and per the recently completed a Physical Needs Assessment, a large-scale renovation in the next twenty years or sooner will be needed, including: rebuilding of the exterior walkways; waterproofing issues; and replacing handrails and other fixtures. In total, Adeline Street Apartments, L.P. estimates these costs are likely to exceed \$500,000.

Operating Expenses

[Operating expenses at Adeline Street Apartments, per unit per year are: \$18,532.

Replacement reserves at Adeline Street Apartments are currently at \$74,502. Adeline Street Apartments, L.P., indicates that without a continued PBV contract, it would make any recapitalization and renovation efforts at Adeline Street Apartments challenging as the property is not large enough to attract an equity investor.

Staff supports an approval of a 10 year extension resulting in a contract term of 30-years. Absent the PBVs, households would be provided a tenant-based voucher. However, should a family move to another jurisdiction with its voucher, BHA would lose Administrative Fee earnings.

Additionally, BHA is guaranteed Administrative Fees for every unit under a PBV contract, regardless of whether the unit is leased up or not. If a vacant unit is undergoing turnover/maintenance prior to a new PBV household moving in, BHA continues to earn Administrative Fees during that time, which is not the case in the Tenant-based program.

FINANCIAL IMPLICATIONS OF ACTION

PBV's have guaranteed units and administrative fees. Absent the continuation of PBV contracts, BHA risks losing these fees, should families opt to move to other jurisdictions with their Tenant-based vouchers.

CONTACT PERSON

James Williams, Executive Director

Attachments:

1. Excerpt from BHA Admin. Plan, Ch. 17, Project-based Vouchers (page 17-21)
2. Resolution
3. May 25, 2023 Adeline Street Apartments Letter to Request for Extension

**Excerpt from BHA Admin. Plan
Ch. 17, Project-based Vouchers (page 17-21)**

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When determining whether or not to extend an expiring PBV contract, for how long, and the number of units, BHA will consider several factors including, but not limited to:

- The cost of extending the contract and the amount of available budget authority;
- The condition of the contract units;
- The owner's record of compliance with obligations under the HAP contract and lease(s);
- Whether the location of the units continues to support the goals of deconcentrating poverty and expanding housing opportunities;
- The extent to which projects that are serving families, elderly or disabled household include 1, 2, and 3 bedroom units
- Demonstrated need of the minimum number of project based vouchers required to (i) finance debt for substantial, unanticipated rehabilitation activity and (i) meet contractual obligation to rent to households at or below 50% of AMI.
- Preservation of fully accessible/adaptable units for wheelchair users; and,
- Whether the funding could be used more appropriately for project-based assistance at additional new construction projects, whether partially or completely owned by BHA, or another property requesting/needing PBV assistance, or in the tenant based voucher program.

BERKELEY HOUSING AUTHORITY
RESOLUTION NO. 23-__

AUTHORIZING THE EXECUTIVE DIRECTOR TO ENTER INTO A TEN-YEAR EXTENSION OF THE EXISTING PROJECT-BASED SECTION 8 MASTER HOUSING ASSISTANCE PAYMENT (HAP) CONTRACT WITH ADELINE STREET APARTMENTS, L.P., FOR 18 UNITS AT ADELINE STREET APARTMENTS, FOR A TOTAL OF 30 YEARS

WHEREAS, the original Master HAP contract with Adeline Street Apartments, L.P., for 18 units was signed in 2001, effective in 2003 upon the completion of construction, for a 10-year term that expired in April 2013; and

WHEREAS the BHA Board approved a 5 year contract extension in 2013, which expired in April of 2018; and

WHEREAS the BHA Board approved a 5 year contract extension in 2018, which expired in April of 2023, for a cumulative extension period of 10yrs to date; and

WHEREAS, pursuant to the Berkeley Housing Authority's (BHA) Administrative Plan, BHA may extend the term of the contract administratively, without an open competition, for an additional term of up to 20 years if BHA determines an extension is required to secure funding to perform substantial, unanticipated rehabilitation. BHA has already approved an extension up to 10yrs, with an additional 10yr extension period available through an administrative approval without an open competition; and

WHEREAS, HUD's Housing Opportunity Through Modernization Act (HOTMA) of 2016, increases the length of time for an extended term of a master Project-based contract to 40 years in total; and

WHEREAS, BHA earns Administrative Fee for each PBV unit under Master HAP contract including the time it is vacant, being readied for lease up; and

WHEREAS the project serves 18 very low income households, and provides accommodations for people with disabilities and an on-site Resident Manager to handle services issues on an as-needed basis; and

WHEREAS staff reviewed the Administrative Plan criteria in determining whether to recommend approval of the additional extension of the contract including the cost of extending the contract and the amount of available budget authority; the need for substantial, unanticipated rehabilitation to preserve and/or extend the viability of the housing stock; and

WHEREAS, Project-based housing is a critical and stable, long term housing option for the households that BHA serves (those at 0% - 50% of Area Median Income); and

WHEREAS Project-based housing is a stable, long term housing option protected against market fluctuations; and

WHEREAS Adeline Street Apartments, L.P., sites major capital needs, and has plans to re-syndicate and refinance the property in order to conduct the necessary work.

NOW THEREFORE BE IT RESOLVED THAT the Executive Director is authorized to enter into a ten-year extension of the existing Project-based Section 8 Master HAP contract with Adeline Street Apartments, L.P., for 18 units at Adeline Street Apartments for very low income households, for a total of 30 years in the extended term.

The foregoing Resolution was adopted by the Board of the Berkeley Housing Authority on June 27, 2023 by the following vote:

Ayes:

Noes:

Abstain:

Absent:

Attest: _____
James Williams, Executive Director

Attachment 3

May 25, 2023

James Williams
Executive Director
Berkeley Housing Authority
1936 University Avenue, Suite 150
Berkeley, CA 94704

RE: Adeline Street Apartments Project-based Section 8 Master HAP Contract

Dear Mr. Williams:

On behalf of Adeline Street Apartments, L.P. and its development sponsor, Resources for Community Development (RCD), the following is in response to our discussion relating to the end of the original 20-year term HAP contract.

Given the changes enacted under the Housing Opportunity Through Modernization Act of 2016 (HOTMA), we request a new 20-year contract as an addendum to Section (2)(3) Extension of Term of the HAP Contract dated May 30, 2018. Our interpretation of HOTMA is that BHA has this authority and its allowance for PBV's is increased when considering a property for persons with disabilities such as Adeline.

We ask that you give this request consideration. Adeline, given its tenant population, its small size, and regulatory restrictions, is a property that is not financially feasible without ongoing rental subsidies. The average income of our residents is less than 20% of the Area Median Income. Without rental subsidies, operating expenses would immediately exceed the rental income the property can achieve.

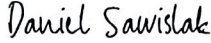
Given the physical needs at the property, RCD is currently working to reposition the property financially and physically. For example, the rebuilding of the exterior walkways, which is needed to address high wear and tear and ongoing waterproofing issues, is likely to cost more than \$500,000. The replacement reserves for the property are currently \$74,502. In addition, a variety of capital needs, not unusual for a 15-20 year old building, include replacement needs for handrails, fencing, windows, and lighting improvements. A re-syndication strategy is only possible if combined with a new 20-year contract due to its substantial leveraging capacity. Otherwise, the property is simply too small to attract an equity investor. Further, it is extremely unlikely that new permanent financing could be leveraged without the assurance of a long-term 20-year contract. As a result, many of these capital components of the building will continue to deteriorate creating larger issues to confront in the future.

We urge you to consider our request to significantly increase the financial leveraging of the project and permit a rehab that will address current critical property needs and extend the life

of the property to continue to serve its resident community. Please let us know if you have any questions.

Sincerely,

DocuSigned by:


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Daniel Sawislak
Executive Director

Cc: Jenny Wyant, City of Berkeley, Dept. of Health, Housing & Community Development