



Office of the City Manager

Date: February 23, 2022
To: Honorable Mayor and Members of the City Council
From: *Dee* Dee Williams-Ridley, City Manager
Subject: **CalCHA & 2020 Kittredge Street Acquisition Information**

This memo is intended to provide an overview of the acquisition process of the California Community Housing Agency Middle Income Rental Housing Program (CalCHA) and the recent acquisition of 2020 Kittredge Street (also known as K StreetFlats) using CalCHA financing.

CalCHA Background

CalCHA is a Joint Powers Authority (JPA) authorized by the State to issue tax-exempt bonds in local jurisdictions. These bonds are used to acquire market rate properties and transition them to deed-restricted middle-income housing for incomes ranging between 80-120% of Area Median Income (AMI).

On February 23, 2021, Council adopted a resolution to join the JPA. This resolution enabled the City Manager to execute public benefit agreements with CalCHA for their acquisition of any properties within the City of Berkeley boundaries. This is necessary as CalCHA purchases properties on market timelines with closing requirements and timing. CalCHA cannot acquire any properties without the City's consent.

Staff advanced the resolution to Council for several reasons, including:

- An ongoing call by the community, commissions, and Council to serve these "missing middle" income ranges not typically served by the City's current affordable programs that have qualifying incomes ranging between 30-60% AMI.
- Interest and enthusiasm from the Council, commissions, and community in considering alternative models to bring an increasing portion of the City's housing stock into deed restricted affordability.
- The City is not responsible for any financial expenditures, liabilities, or obligations for bonds issued by CalCHA.
- The City's Housing Trust Fund is overcommitted compared to pending affordable projects in the pipeline, limiting the City's ability to support future affordable housing requests via its traditional financing practices.

- The City has the ability to acquire the property starting at Year 16 (assuming responsibility for the outstanding debt) or after the bonds are paid off (in Year 30- 35 depending on the project) with no debt. The City would then have the ability to assign the property to an affordable developer at current or deeper income restrictions with less overhead than new construction or acquisition (some rehabilitation funding may be beneficial). An example of this analysis is provided below.
- Over 20 comparable Bay Area jurisdictions had joined the JPA at the time of the report, and CalCHA had already purchased several properties in the region.

The City does forgo property tax revenue in exchange for these acquisitions. Essentially all deed-restricted affordable housing developments are eligible for property tax exemption. This occurs at all affordable properties throughout the City.

2020 Kittredge Acquisition

Council's adoption of the resolution to join the JPA on February 23, 2021 gave CalCHA the go-ahead to identify potential properties for purchase in Berkeley. On July 30, 2021, staff in HHCS were contacted by CalCHA and their development partner, HCF Development, to execute a Community Benefits Agreement for a bond issuance for the acquisition of 2020 Kittredge. This boilerplate agreement had been reviewed and approved by the City Attorney's Office in advance of the February 2021 Council meeting and, subsequently, HHCS worked with the City Attorney's Office to execute the agreement for purchase of 2020 Kittredge. The agreement was executed on August 10, 2021. CalCHA completed acquisition of the property on October 7, 2021.

2020 Kittredge is a 176-unit building, including 35 Below Market Rate (BMR) units at 60% AMI. The property's recorded deed restriction allows current tenants not to be displaced from their units based on income. Rents for this property will range for incomes between 60%-120% AMI once all non-income qualifying tenants vacate. The property manager is currently marketing vacant units at below market rates consistent with the deed restriction. CalCHA will provide the City with copies of its annual unit compliance report.

2020 Kittredge Analysis

The City's forgone property tax revenue should be considered in conjunction with the combined benefit of reduced rents and property acquisition option. This acquisition will provide the City a long-term opportunity for affordable housing acquisition at a relatively low cost compared to traditional affordable financing.

2020 Kittredge's total property tax contribution for 2021-2022 was approximately \$1.4M. The City of Berkeley's share of this revenue totaled \$210,358 for 2021-2022. Considering a simple 2% increase per year via Prop 13 regulations, this amounts to approximately \$10.5M over 35 years to acquire a 176-unit building dedicated to affordable housing. There are no income restrictions following the bond period, and the City can assign and reduce rents to lower AMI levels should it desire. For example, following Year 35, the City could assign the building to a nonprofit developer and restrict rents below 60% AMI for an additional 55 years (the current deed restriction length for City supported projects).

The City currently provides upfront costs for acquisition, new development, and rehabilitation. For comparison, on April 20, 2021, the City Council approved \$24.5M for a middle-income project to benefit employees of the Berkeley unified School District (BUSD). The current proposal is projecting 110 units at incomes ranging between 30%-110% AMI. BUSD is currently conducting an income survey of its employees and has the ability to increase its cap to 120% AMI to meet employee needs.

Comparing the two middle-income strategies: the costs of the BUSD project are approximately \$223,000/unit upfront while 2020 Kittredge will cost the City \$1,195/unit/year in foregone tax revenue per unit for each of 35 years. This equates to the option to acquire 2020 Kittredge for \$59,754 per unit deferred over 35 years. The BUSD project will provide homes for households with incomes between 30% and 110% of median (earning no more than \$124,355 for a household of three people) for at least 55 years. 2020 Kittredge will provide homes for households with incomes between 60% and 120% of median (earning no more than \$135,650 for a household of three people) for at least 35 years.

Future Opportunities and Next Steps

This model is an alternative way to defer acquisition on a large rental property that the City could not otherwise acquire with current upfront funding costs and obligations. It is important to emphasize that no properties can be acquired moving forward without the City's consent and the City does not need to take any action should it choose not to further participate in CalCHA. The City Manager will request a closed session discussion should future opportunities with CalCHA arise to ensure council direction is followed on a property by property basis.

Staff have formed a working group with other cities in Alameda County focused on CalCHA acquisitions and similar models that are gaining popularity. The goals of the group are to facilitate knowledge sharing and explore opportunities to strengthen our collective position. Many cities in Alameda County and the larger region opted to participate in CalCHA and staff are working to ensure the maximum benefits are delivered to our respective communities.

cc: Paul Buddenhagen, Deputy City Manager
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