Housing Advisory Commission

May 3, 2018

To:	Housing Advisory Commission
From:	Commissioner Thomas Lord
Subject:	**U1 recommendations**

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Tonight's action is rather late

Colleagues,

I would like to make sure that we all understand where we are procedurally on the question of U1 recommendations. The calendar is not in our favor.

"Premier Cru" purchase

One question is: should the City use U1 money to pay for those properties sometimes known as the "Premier Cru" compound. The subcommittee says no.

In fact, that's redundant. We already said no, a year ago, almost to the day: May 4, 2017. I'll say more about that later.

Here's the catch: on June 26, Council is scheduled to take up the question of dedicating $4,730,815 of revenue from Measure U1 to the purchase of the properties at 1001, 1007, and 1011 University Avenue and 1925 Ninth Street, Berkeley. The City Manager's recommendation is that Council use U1 money for that purchase, appropriating $946,163 per year for 5 years.

At that meeting Council will receive our *May of 2017* recommendation against using the money that way, and the companion will report from the City manager will recommend against us.

The money must be repaid to the Workers Compensation Fund and it must be repaid in a timely way. No alternative source of funding has been identified – not by the HAC – not by anyone.

It seems very likely to me that U1 money will be used for this purpose no matter what we say. We might still have a chance to weigh on how much to use when.

A Revenue Bond for BRIDGE

Already, on March 13, 2018, City Council directed the City Manager to prepare a $24.8 million revenue bond (that's about $2M per year for 20 years). The full amount of that is to be dedicated to BRIDGE. It appears it is meant to cover the gap in construction fund ***AND*** pay for 10 years of structural deficit in operational expenses.

The HAC is supposed to receive a referral to consider enlarging the size of the bond issue (which it is not clear will be possible) in order to have some money to spend on something other than the BRIDGE project and "Premier Cru".

While Council has not taken final action on this plan, meaning that technically it can still be averted, they have taken expensive steps such as asking the City Manager and Bond Council to prepare the bond issue.

We don't know, but I would personally guess that this option also returns to Council in June.

Anti-displacement funding

The anti-displacement appropriation from U1 revenues is already a done deal.

Summary of Council's Plans

With the support of City staff, Council tentatively plans – probably by the end of June, to appropriate U1 revenue this way:

$2 million per year for BRIDGE Housing project bond for at least 10 years, possibly 20.

Almost $1 million per year to pay for the purchase of properties at 1001, 1007, and 1011 University Avenue and 1925 Ninth Street.

Contrast with the subcommittee's last-minute advice

The subcommittee has returned tonight with this alternative:

Spend only a portion, $300,000 of the U1 revenue that was appropriated to anti-displacement on anti-displacement.

Spend $1 million on a small sites program.

Deposit $2 million in the housing trust fund.

Critique of the subcommittee's advice

The subcommittee suggests putting $2M into the Housing Trust Fund but, given the large gap for the BRIDGE project, that is equivalent to recommending $2M for BRIDGE.

Thus, Council can easily honor the "concept" of the subcommittee's recommendation by appropriating that $2M for the first year of bond payments.

The subcommittee suggests returning to the ballot before bonding, but that suggestion would mean no bonding before at least 2020 and probably later. That would be much too late for BRIDGE and so, most likely, if Council wants to proceed with the BRIDGE project, they will reject that idea.

The subcommittee suggests $1M for the Small Sites program but if $2 million go to the Housing Trust Fund, putting $1M to the Small Sites program would leave a $1 million dollar gap in necessary repayment to the Worker's Comp. Fund. The City Manager has already recommended that that $1 million go to the Worker's Comp fund.

To me, the subcommittee's recommendations seem out of touch with the fiscal realities Council is actively trying to address. If we make those recommendations they will likely not be taken.

There is a very real possibility that by the end of June, there will be a 10 or 20 year commitment of $2 million per year towards a bond for BRIDGE, and a five year commitment for another $1 million for those properties along University and 9th.

In that case, there will be no U1 money for a Small Sites program. And the HAC will have very little to say about how U1 revenue is spent for a long time to come.

Also in that case, the taxpayers of Berkeley will be paying significant debt service on the BRIDGE project, borrowing money even to cover 10 years of future structural deficits in projected operating costs for that project.

Conclusion regarding the subcommittee recommendations

The subcommittee's motion should be rejected because it is likely not to be implemented by Council, but to instead encourage Council to commit U1 money to debt service, and to not fund a Small Sites program.

Making the best of a bad situation

I hope that the previous item will encourage commissioners to support a Small Sites program. City staff has identified some obstacles to such a program but I hope you can see I've pointed out ways to begin overcoming those obstacles in useful ways.

Thus, I think the HAC should come down in favor of the $1 million for a Small Sites program. I agree with the subcommittee that far.

I also hope that the HAC will begin to see that the BRIDGE project's funding gaps and operational deficits are very large, and very serious, and will cost us dearly if that project goes forward. (The project has already absorbed nearly every housing dollar Berkeley can lay its hands on, including almost $15 million from the county.)

Thus, I think the HAC should come down strongly against bonding – against the revenue bond and, thus, necessarily, against the BRIDGE project. I appreciate that taking such a stance would require considerable political courage – but the alternative is so fiscally dubious that it can not be seen for long as a political victory.

And so I ask the HAC to reverse its position from one year ago and to advise putting $2 million of the 2017 U1 revenue towards closing the roughly $6 million debt to the Worker's Compensation fund. That way, we will preserve future U1 revenues to do better next year.

How we got here

It is worth examining the perfect storm of circumstances that brought us to that unfortunate condition. I hope to do that as we discuss the next item.