

CITY OF SEBASTOPOL CITY COUNCIL  
AGENDA ITEM REPORT FOR MEETING OF: June 18, 2024

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To: Honorable Mayor and City Councilmembers  
From: Don Schwartz, City Manager  
Subject: Gravenstein Commons Homekey Project

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**RECOMMENDATION:**

1. Reconsider prior decision to withdraw from participation in the Gravenstein Commons Homekey Project

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**EXECUTIVE SUMMARY:**

On April 2, 2024 the City Council voted to withdraw from participation in the Gravenstein Commons Homekey Project. The primary reasons were the financial risks to the City, and other pressing City business such as fire consolidation, water and sewer rates, and the City’s fiscal challenges. The staff report for that item is attached.

Since then, two Councilmembers (including one who voted to withdraw from participation) have asked the City Council to reconsider this decision.

**BACKGROUND:**

The staff report from the April 2 meeting is attached and provides extensive background information on the project.

Developments since then include:

- a. Threatened Litigation: St. Vincent de Paul (SVdP) intends to sue the City regarding the April 2, 2024 decision to withdraw from the Gravenstein Commons project, but will cease to pursue litigation if the City of Sebastopol supports the project. See attached letter from SVdP Board of Directors.
- b. Developing Encampment: The property at 845 Gravenstein Highway North, with no active oversight, is attracting RVs, other lived-in vehicles, tents, and other signs of an encampment. RVs have become more prevalent on the streets and parking areas near the site and at times at other locations in or near the City.
- c. According to SVdP, the state funding for the project remains available. See attached letter from SVdP Executive Director Jack Tibbetts.
- d. The Sonoma County Homeless Coalition, formerly known as the Continuum of Care or CoC, has amended its policies regarding placement of high-need individuals in permanent supportive housing locations such as the intended use of Gravenstein Commons. SVdP had committed eight units to former Horizon Shine residents. These changes increase the likelihood that more of the 22 units will be available to those experiencing homelessness in Sebastopol than under the prior system.
- e. SVdP’s offer of five temporary RV spots in Santa Rosa for former residents of Horizon Shine is no longer available.

Confirmed commitments include:

- a. The \$6,449,235 in funding from the California Department of Housing and Community Development (HCD) continues to be available for the Gravenstein Commons project, according to SVdP. See attached letter from SVdP Executive Director Jack Tibbetts.
- b. The \$3,000,000 in funding from the Sonoma County Department of Health Services has been re-confirmed. See attached letter from Department of Health Services Director Tina Rivera.
- c. SVdP has confirmed its continued commitments made in preparation for the April 2 Council meeting. See attached letter from SVdP Executive Director Jack Tibbetts.

**COMMUNITY OUTREACH:**

This item has been noticed in accordance with the Ralph M. Brown Act and was available for public viewing and review at least 72 hours prior to schedule meeting date.

**FISCAL IMPACT:** The financial risks associated with the project are discussed in the April 2, 2024 staff report. There should be no direct financial impact to the City should the Project Agreement between SVdP and the City be signed. Staff time will be required for oversight and management.

**OPTIONS:**

1. The City Council can confirm its April 2, 2024 decision to withdraw from the Gravenstein Commons project.
1. The City Council can approve proceeding with the project. This would include:
  - a. Approving the attached resolution required by the state for it to provide its required Standard Agreement to the City. This resolution corrects minor items from the Resolution approved by the Council in May 2023.
  - b. Directing staff to take all necessary steps to promptly and efficiently (1) sign the Project Agreement to provide for SVdP to pay for a third party expert to work on behalf and at the direction of the City and to pay for all of the City's legal and administrative costs related to the project, as described in the Project Agreement, (2) sign a Regulatory Agreement with SVdP as required by the State, and (3) sign a Standard Agreement as required by the State.

**ATTACHMENTS:**

1. Letter from SVdP Board of Directors regarding Threatened Lawsuit
2. Letter from SVdP Executive Director Jack Tibbetts with attached Agreement.
3. Letter of Support from Sonoma County Department of Health Services Executive Director Tina Rivera
4. Updated Resolution Required by the State to Continue Participation
5. April 2, 2024 Staff Report and Attachments



Society of St. Vincent de Paul  
District Council of Sonoma County, Inc.

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Neighbors helping neighbors across Sonoma County ♦ Serving the poor regardless of race, creed, or origin since 1958  
♦ An independent non-profit organization founded in 1833 by Blessed Frederic Ozanam♦

**To:** The Sebastopol City Council

**From:** The Board of Directors of the Society of St. Vincent de Paul  
District Council of Sonoma, Incorporated

**Subject:** Pending Litigation

Dear Honorable Members of the Sebastopol City Council,

I am writing on behalf of the Board of Directors of the Society of St. Vincent de Paul District Council of Sonoma, Incorporated (SVdP) regarding our intent to file a claim for damages following your departure from your May 16<sup>th</sup>, 2023 commitment, made by Resolution, to proceed as the co-applicant to develop 22 units of permanent supportive housing, located at 845 N Gravenstein Highway, in Sebastopol, California.

During our most recent Board meeting, held on May 25<sup>th</sup>, 2024, the Board of Directors voted to proceed with taking legal action to recover damages incurred as the result of your breach of your commitment to apply for \$6.449 million from the State of California, which your Council made on May 16<sup>th</sup>, 2024, by way of Resolution. Since that time, SVdP incurred \$256,762 in pre-development soft costs - costs we would not have expended had your Council appropriately voted to not enter the partnership on May 16<sup>th</sup>. However, since your Council voted 4-1 to proceed, SVdP invested the necessary time and money to meet the development timeline both the City and SVdP committed to in the application. Furthermore, SVdP had been asked – repeatedly - by your previous Mayor and members of your Council to acquire the 845 Gravenstein Highway property to aid in your City’s efforts to relocate the campers on Morris Street. In response to your urging (made both in private conversation and at public meetings), SVdP invested \$190,000 in the form of a downpayment, and SVdP also took on debt for an additional \$720,000. Since then, we have expended over \$90,000 in interest. These are just *some* of the costs incurred.

However, what concerns us the most is the fact that your Council’s recent vote to abandon the partnership has cost SVdP, and the vulnerable people we serve, \$6,449,000 in the awarded HCD, Homekey Round 3 grant funds, as well as the \$3,000,000 from the County of Sonoma,

totaling \$9,449,000 in lost grant income and additional damages. This money was invaluable to the project and the homeless people living in and around the City of Sebastopol. What is more, since your discontinuation of the temporary use permit, which allowed the Horizon Shine Village to legally operate, the 27 RVs once parked there now line the streets and have resulted in property damage to our property, which was the direct result of an RV fire. We contend that this was the result of the RV existing illegally on the Highway, unregistered, in an unsupervised environment, and a direct result of the chaos that ensued following the village's disbandment, without a sufficient relocation plan, which would have occurred had the project proceeded, as originally planned.

We are disappointed by your recent decision, to say the least. And we do plan to take action to recover these expenditures and lost income. Our intent is to use any recovered damages to finish the project, or make the awarded damages available to the vulnerable public in some other form that benefits them.

That said, however, should your Council decide to reverse its position during your upcoming meeting on June 18<sup>th</sup>, the Board of Directors will cease to pursue litigation and continue to work with you, collaboratively, and in good faith, to execute the project as intended.

We do not foresee any significant development or operational risk, and we believe the project merits a partnership that will deliver this much-needed housing to the community. It is a win for the City of Sebastopol, it is a win for SVdP, it is a win for your residents and businesses that are now impacted by the former Horizon Shine campers and, most importantly, it is a win for people-experiencing homelessness in your community.

It is very important to remember that living on the streets, without housing, a door to lock, and a place to call home, is difficult and dangerous. For example, about 60% of women living on the street are likely to become victims of sexual assault within the first 30 days of living on the street. This is but one of many examples of the perils of homelessness. You, the Sebastopol City Council, have the power to change that on June 18<sup>th</sup> by courageously changing your vote to support the project.

We urge you to do so.

Respectfully,

James Nantell

President  
SVdP  
(650) 274-9941



Society of St. Vincent de Paul  
District Council of Sonoma County, Inc.

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Neighbors helping neighbors across Sonoma County ♦ Serving the poor regardless of race, creed, or origin since 1958  
♦ An independent non-profit organization founded in 1833 by Blessed Frederic Ozanam♦

6/11/2024

Dear Honorable Members of the Sebastopol City Council,  
The Society of St. Vincent de Paul District Council of Sonoma Incorporated (SVdP), writes you this letter to communicate our willingness to stand behind the commitments we previously made during your April Council meeting. Should you choose to move forward with the partnership and project during your meeting on June 18<sup>th</sup>, 2024, and should the state issue the awarded grant funds, SVdP will uphold the commitments outlined in this document. As of two weeks ago, the Grants Management Division for the California Department of Housing and Community Development emailed requesting our signed documentation to process payment of the grant. Therefore, we believe the grant is active, and we are still eligible to receive funding.

Respectfully,

Jack Tibbetts

Executive Director  
(707) 495-7438

[jtibbetts@svdp-sonoma.org](mailto:jtibbetts@svdp-sonoma.org)

**PROJECT AGREEMENT**  
**By and Between the Society of St. Vincent de Paul District Council of**  
**Sonoma Incorporated**  
**&**  
**The City of Sebastopol**

For the Construction and Operation of the “Gravenstein Commons,” located at 850 N Gravenstein Highway by and between The City of Sebastopol and The Society of St. Vincent de Paul District Council of Sonoma, Inc.

**1. Background**

On May 16th, 2023, The City of Sebastopol (“City”) directed staff to jointly apply for funding from the California Department of Housing and Community Development (HCD), along with the Society of St. Vincent de Paul District Council of Sonoma, Incorporated (SVdP), to construct twenty-two, deed-restricted, extremely low-income housing to ameliorate homelessness within the city by passing Council Resolution 6533-2023. The initiative was a direct response to the explosion of houseless people living on Morris Street and the surrounding area. The City then began working with service providers to temporarily relocate the homeless to 850 N Gravenstein Highway. This safe parking site was intended to be temporary and serve as a stopgap until SVdP could construct permanent supportive housing at the location. In support of that goal, the City jointly-applied for \$6,449,235 to construct the units and, on February 26th, the City and SVdP were awarded the funds.

On March 19th, 2024, Sebastopol City Manager, Don Schwartz, brought this contract to the Council to affirm the City’s willingness to continue forward with the project as a joint-applicant and assume all of the liabilities therein. This contract was prepared by Jack Tibbetts, Executive Director of the Society of St. Vincent de Paul District council of Sonoma, Inc., and represents the nonprofit organization’s warranties to the City, and financial obligations, for the life of the project.

**2. Parties**

The City of Sebastopol (“The City”) is a city located in Sonoma County, California.

The Society of St. Vincent de Paul District Council of Sonoma, Incorporated (“SVdP”) is a nonprofit organization that serves Sonoma County, Mendocino County, and Lake County. The organization has a budget of \$3.2 million per year, and an asset value of over \$15 million. The organization has been in existence since 1963 in Sonoma County, and its mission is to “end poverty, one person, and one family, at a time.”

**3. Purpose**

The parties do hereby enter into an agreement (“Agreement”) regarding the 22-unit development, located at 850 N Gravenstein Highway, in Sebastopol, California, and the joint partnership governed by California Department of Housing and Community Development’s Standard Agreement. This contractual agreement shall bind the parties for the entire term of this project, or until said parties submit a mutually-executed amendment.

**4. Term**



The term of this agreement shall commence when both parties dually-execute this contract, and the contract shall not terminate before the full 15-year period the California Department of Housing and Community Development (HCD) will hold the parties liable for any breach of contract to the Standard Agreement. This contract can only be voided through mutual agreement, or through a cancellation of the Standard Agreement. Once the 15-year timeline is complete, and the Standard Agreement expires, the parties no longer share any liability in the project, the Standard Agreement will be null and void and, as a result, so will this agreement.

## 5. City of Sebastopol's Responsibilities

5.a. The City of Sebastopol shall execute the Standard Agreement and subject itself to any and all financial liability associated with a breach of contract to said Standard Agreement. In the event of a breach of contract, the City of Sebastopol could be liable for up to \$6,449,235 - the total amount of the grant funds awarded - but the City also understands that SVdP shall be in first position to refund the grant in the event of a breach of contract.

5.b. The City of Sebastopol shall make reasonable efforts to expedite the planning and permitting process so that the parties have every opportunity to reach completed milestones, as required by HCD's Standard Agreement.

## 6. SVdP's Responsibilities

6.a. SVdP shall always be the primary party "in first position" responsible for repaying any fees, damages, or refunds associated with the project.

6.b. SVdP agrees to indemnify the City of Sebastopol for any financial liability associated with the project the City could incur as the result of a breach of contract.

6.c. To sufficiently guard against financial default during the construction phase of the project (construction phase shall be defined as from the time of execution of the Standard Agreement until the City issues a certificate of occupancy), SVdP shall maintain a capital reserve, or line of credit, of **\$671,215, which shall serve as a project contingency to cover any construction cost overruns.**

6.d. To ensure ongoing operational capacity for the full 15-year term of the project, SVdP agrees to immediately deposit \$671,215 (the operating subsidy) into an operating account, which the City will be able to monitor at any time. At the end of the first operating year, SVdP shall determine the year-end budget actuals and any deficit that may have been incurred. Whatever said deficit amount is, SVdP will pull from its unrestricted, general operations account, and deposit into the project's operating account to pay for the subsequent operating year. Once complete, SVdP shall submit to the City a copy of the budget, budget actuals, and despot slip to cover the subsequent year's operating loss. This process shall be repeated every year, for 15 years, or until the Standard Agreement becomes void.

6.e. To help offset costs for the City of Sebastopol, SVdP agrees to fund contract staff support for the City. Funding shall be limited to submitting reports to HCD, as requested or required by HCD (e.g. milestone reports and milestone extension requests), annual project budget submissions and actuals, development of the regulatory agreement, and execution of the standard agreement. This commitment shall remain in effect for the full 15-year life of the project.

## 7. General Provisions

**I. Entire Agreement**

The agreement constitutes the entire agreement between the Parties. The agreement may only be amended by mutual consent in the form of a dually-executed amendment to this agreement. No failure or delay of either party in exercising any right or remedy hereunder shall operate as a waiver thereof; any such waiver shall be valid if set forth in writing by such party.

**II. Notice**

All notices and other communication hereunder shall be in writing and delivered to the addresses set forth on the signature page.

**III. California Law**

The Agreement and all disputes or controversies arising out of, or relating to, the Agreement or contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of California.

**IV. Non-assignment**

Neither the Agreement, nor any of the rights, interests or obligations thereunder, may be assigned, in whole or in part, by operation of law or otherwise, by either party without the prior written consent of the other party. The Agreement will be binding upon the Parties and their respective successors and assigns.

**V. Non-severability**

If any provision or portion of this Agreement is held to be invalid, illegal or unenforceable in any respect, under any applicable law, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

**Signed:**

By \_\_\_\_\_

Name: Don Schwartz  
City Manager, City of Sebastopol

Date: \_\_\_\_\_

By  \_\_\_\_\_

Name: Jack Tibbetts  
Executive Director, SVdP

Date: 6/11/24



June 10, 2024

To The Honorable Mayor Diana Gardner Rich  
7120 Bodega Avenue  
Sebastopol, CA 95473

To the Honorable Mayor Diana Gardner Rich, Councilmembers of Sebastopol, and Saint Vincent de Paul,

Please receive this letter for the June 18, 2024, Sebastopol City Council meeting. It is my understanding that the Sebastopol City Council will be reconsidering the April 2nd decision to withdraw from the St Vincent de Paul Gravenstein Commons project. Please receive this letter as a reconfirming commitment of the Department of Health Services support for this project.

Department of Health Services wishes to support the City of Sebastopol and Saint Vincent de Paul with your 22-unit, junior 1-bedroom, permanent supportive housing project, located at 845 N Gravenstein Highway in Sebastopol. Permanent supportive housing is a proven solution to homelessness for the most vulnerable chronically homeless individuals. Investments in permanent supportive housing have historically helped in decreasing the numbers of individuals experiencing chronic homelessness. In addition to ending homelessness for those who have fallen in the trap of chronic homelessness, research has demonstrated that permanent supportive housing can increase housing stability and improve health. In essence, permanent supportive housing is a cost-effective solution, data has shown to lower public costs associated with the use of crisis services such as shelters, hospitals, jails, and prisons. To that end, Department of Health Services wishes to partner with the City of Sebastopol and Saint Vincent de Paul providing a financial arrangement that creates a secondary source of funds in case the primary source of funds is not enough to meet current needs. We understand the complexities of projects such as these and the importance of contingency plans. We have programming for permanent supportive housing up to \$3,000,000 in Housing Homeless Assistance Program Funding that would create a safeguard for this project in the event of unforeseen loss, or cost overruns.

We encourage you to consider this offer of support and avoid refunding \$6,449,235 in funding when these dollars remain available and could provide critical housing to our vulnerable residents securing them a better future. We look forward to the fruition of this project build. Please let me know should you have additional questions or concerns.

In Partnership,



Tina Rivera

cc: Don Schwartz  
Stephen Zollman  
Neysa Hinton  
Sandra Maurer  
Jill McLewis  
Jack Tibbetts

RESOLUTION NUMBER: -2024  
(CORRECTING RESOLUTION NUMBER 6533-2023)

CITY OF SEBASTOPOL

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SEBASTOPOL AUTHORIZING A JOINT APPLICATION WITH ST VINCENT DE PAUL FOR A PROJECT HOMEKEY GRANT APPLICATION FOR 845 GRAVENSTEIN HIGHWAY NORTH AND FINDING THE PROJECT EXEMPT UNDER CEQA SECTION 15332, CLASS 32

WHEREAS, the City Council held a duly noticed public meeting to consider the item on May 16, 2023, and heard public comment, and adopted Resolution 6533-2023 authorizing certain actions related to Project Homekey application by the City of Sebastopol ("City") and St Vincent de Paul ("Co-Applicant"); and,

WHEREAS, the Department of Housing and Community Development notified the City of certain amendments required to the language in Resolution 6533-2023, which authorized the application for Project Homekey Round 3 funding; and,

WHEREAS, these corrections include the following:

1. Paragraph 3 of Resolution 6533-2023 , incorrectly states the date of the Project Homekey Round 3 Notice of Funding Availability (NOFA) as September 9, 2021, and
2. Paragraph 3 of Resolution Number 6533-2023 incorrectly omits the reference to "Round 3" of Project Homekey, and
3. Paragraph 4 of Resolution Number 6533-2023 omits the reference to the City of Sebastopol as "City" for future references, and identifies St Vincent de Paul as "Corporation" but omits the identification of St Vincent de Paul as "Co-Applicant", as required by the California Department of Housing and Community Development ("HCD"); and
4. Adopted Item 4 of Resolution Number 6533-2023 incorrectly identifies the City Manager as the authorized signatory for documents related to the Project Homekey program; and
5. Adopted Item 4 of Resolution Number 6533-2023 did not identify City Manager as an authorized applicant, as required by HCD regulations. And,

WHEREAS, the City Council held a duly noticed public meeting to consider the item on June 16, 2024 to correct certain terms of said Resolution 6533-2023, and heard public comment.

NOW THEREFORE BE IT RESOLVED, that the City of Sebastopol City Council based on the foregoing finds and determines it advisable to amend Resolution 6533-2023 to correctly state the above amendments as follows:

1. Paragraph 3 of Resolution 6533-2023, is hereby amended to specify Project Homekey Round 3 Notice of Funding Availability (NOFA) of March 29, 2023; and
2. Paragraph 3 of Resolution Number 6533-2023 is hereby amended to add the reference to "Round 3" of Project Homekey, and
3. Paragraph 4 of Resolution Number 6533-2023 is hereby amended to add the reference to the City of Sebastopol as "City" for future references, and identify St Vincent de Paul as "Co-Applicant", as required by the California Department of Housing and Community Development ("HCD"), and

amends references throughout the Resolution to identify the City and Co-Applicant as such; and

4. Adopted Item 4 of Resolution Number 6533-2023 is hereby amended to identify the Mayor as the authorized signatory for documents related to the Project Homekey program; and
5. Adopted Item 4 of Resolution Number 6533-2023 is hereby amended to add the City Manager as an authorized applicant in addition to the Planning Director, as required by HCD regulations.

BE IT FURTHER RESOLVED, that the City of Sebastopol City Council based on the foregoing, the City Council of the City of hereby adopts the Corrected Resolution 6533-2023 to read as follows, with new language underlined:

WHEREAS, the City of Sebastopol completed a comprehensive General Plan update with adoption of a new General Plan on November 15, 2016, and adopted an Updated Housing Element on January 3, 2023; and

WHEREAS, pursuant to the California Environmental Quality Act (CEQA, codified at Public Resources Code § 21000 *et seq.*) and the State CEQA Guidelines (14 CCR, § 15000 *et seq.*), on November 15, 2016, the City Council certified and adopted an Environmental Impact Report (EIR) for the Sebastopol General Plan (the “Project”; State Clearinghouse No. 2016032001); and

WHEREAS, The Department of Housing and Community Development (“Department”) has issued a Notice of Funding Availability, dated March 29, 2023 (“NOFA”), for the Homekey Program “Round 3” (“Homekey” or “Program”). The Department has issued the NOFA for Homekey grant funds pursuant to Health and Safety Code section 50675.1.3 (Assem. Bill No. 140 (2021-2022 Reg. Sess.), § 20.); And,

WHEREAS, the City of Sebastopol, a Municipal Corporation (“City”) desires to jointly apply for Homekey grant funds with The Society of St. Vincent de Paul District Council of Sonoma, Incorporated (“Corporation” and “Co-Applicant”). Therefore, Co-Applicant is joining the City in the submittal of an application for Homekey funds (“Application”) to the Department for review and consideration.; And,

WHEREAS, The Department is authorized to administer Homekey pursuant to the Multifamily Housing Program (Chapter 6.7 (commencing with Section 50675) of Part 2 of Division 31 of the Health and Safety Code). Homekey funding allocations are subject to the terms and conditions of the NOFA, the Application, the Department-approved STD 213, Standard Agreement (“Standard Agreement”), and all other legal requirements of the Homekey Program.; And,

WHEREAS, St Vincent de Paul District Council of Sonoma County, Incorporated, a 501(c)3 non-profit organization (the “Co-Applicant”), has approached the City of Sebastopol with a request to jointly apply for State of California Housing and Community Development Grant funding under the Project Homekey, Round 3 grant program; and,

WHEREAS, St Vincent de Paul proposes to apply for Project Homekey Round 3 funding to construct twenty-two (22) to construct twenty-two units of extremely low-income housing at 845 Gravenstein Highway; and

WHEREAS, St Vincent de Paul will be responsible for the construction and operation of the Project, including all costs associated with City staff assistance, the physical development and on-going operations; and

WHEREAS, this grant program requires a Public Entity to be an applicant jointly with a non-profit organization to be eligible for the funding; and

WHEREAS, the Project is also consistent with the CG: General Commercial District and applicable development standards of the Zoning Ordinance, in that permanent affordable housing is permitted in the CG: General Commercial District, and will comply with the applicable development standards.; And,

WHEREAS, the Project is consistent with the General Plan Land Use designation of the General Commercial in that it involves construction of affordable housing adjacent to other residential uses. The Project is further consistent with the following General Plan Goals, Policies and Actions:

Policy A-3 Encourage a variety of housing types such as multi-family units, mixed use housing, ADU and JADUs, single-family attached (townhouses), and other typologies that make housing more affordable.

Policy A-4 Promote the development of new housing units affordable to extremely low, very low-, low-, and moderate-income households and housing units that are affordable to and appropriate for special needs households, including seniors, extremely low-income households, disabled persons, developmentally disabled persons, farmworkers, large families, and persons experiencing homelessness.

Policy D-1 To ensure all residents have access to adequate housing, the City will work to promote and affirmatively further fair housing opportunities throughout the community for all persons regardless of age, race, gender, sexual orientation, marital or familial status, ethnic background, disability, medical condition, or characteristics protected by the California Fair Employment and Housing Act, and any other State and Federal fair housing and planning law.

Policy D-2 The City will encourage long-term and permanent affordability of lower and moderate-income and special needs housing.

Policy D-3 The City will continue to educate the community about fair and affordable housing.

Policy D-4 The City will continue efforts to improve housing opportunities for special needs households, including seniors, disabled persons, developmentally disabled persons, extremely low-income households, farmworkers, large families, and persons experiencing homelessness.; And,

WHEREAS, the Proposed Project to construct affordable housing at 845 Gravenstein Highway North is consistent with the following City Council Goals:

Goal 5: Provide Open and Responsive Municipal Government Leadership

5.3.3. Encourage and increase public awareness of City Policies, decisions, programs and all public processes and meetings, by investigating effective methods of communication and obtaining feedback from the community.; And,

WHEREAS, the construction of 22 units of permanent affordable housing at 845 Gravenstein Highway North is categorically exempt from the requirements of the California Environmental Quality Act, pursuant to Section 15332, Class 32, in that it complies with the General Plan land use designation of General Commercial and the applicable goals and policies of the Land Use Element and Community Identity Element, as contained in this staff report and the proposed Resolution.

The project is also consistent with the CG: General Commercial District and applicable development standards of the Zoning Ordinance, in that permanent affordable housing is permitted in the CG: General Commercial District. Furthermore, the lot is substantially less than five (5) acres; located within City limits; generally surrounded by urban uses; and does not have any identified endangered or rare species. Finally, the site is in an urbanized area, which can be served by required utilities and public services, and the project would not result in significant traffic, noise, air quality, or water quality impacts in that it only involves one modest-sized building, and both traffic and air quality studies determined that the project would not create any significant impacts; utility service can be readily provided; and the project is subject to standard requirements to protect water quality.

WHEREAS, the City Council held a duly noticed public meeting to consider the item on May 16, 2023, and heard public comment.

BE IT FURTHER RESOLVED, that the City of Sebastopol City Council based on the foregoing, the City Council of the City of hereby further re-affirms the following adopted actions of Resolution 6533-2023:

1. Co-Applicant is hereby authorized and directed to submit a joint Application to the Department in response to the NOFA, and to jointly apply for Homekey grant funds in a total amount not to exceed \$15 million.
2. If the Application is approved, Co-Applicant is hereby authorized and directed to enter into, execute, and deliver a Standard Agreement in a total amount not to exceed \$22 million, any and all other documents required or deemed necessary or appropriate to secure the Homekey funds from the Department and to participate in the Homekey Program, and all amendments thereto (collectively, the "Homekey Documents").
3. Co-Applicant acknowledges and agrees that it shall be subject to the terms and conditions specified in the Standard Agreement, and that the NOFA and Application will be incorporated in the Standard Agreement by reference and made a part thereof. Any and all activities, expenditures, information, and timelines represented in the Application are enforceable through the Standard Agreement. Funds are to be used for the allowable expenditures and activities identified in the Standard Agreement.
4. The Mayor of the City of Sebastopol is hereby authorized to execute any documents related to Project Homekey Documents on behalf of the City for participation in the Homekey Program, and the City Manager or Planning Director of the City of Sebastopol, is hereby authorized to submit, individually, grant Application documents.



This resolution supplements, amends, and corrects the original resolution No. 65323-2023 only to the extent necessary to correctly state the above corrections and except to the extent specifically amended by this Resolution, the original resolution 6533-2023 shall remain in full force and effect.

The above and foregoing Resolution was duly passed, approved, and adopted at a meeting by the City Council on the 18th day of June 2024.

**VOTE:**

Ayes:

Noes:

Abstain:

Absent:

APPROVED: \_\_\_\_\_  
Mayor Diana Gardner Rich

ATTEST: \_\_\_\_\_  
Mary Gourley, Assistant City Manager/City Clerk, MMC

APPROVED AS TO FORM: \_\_\_\_\_  
Larry McLaughlin, City Attorney

CITY OF SEBASTOPOL CITY COUNCIL  
AGENDA ITEM REPORT FOR MEETING OF: April 2, 2024

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**To:** Honorable Mayor and City Councilmembers  
**From:** Don Schwartz, City Manager  
**Subject:** Gravenstein Commons Homekey Project

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**RECOMMENDATION:**

1. Discuss and provide direction on continuing City role with Gravenstein Commons Homekey project
2. Withdraw from participation in the Gravenstein Commons Homekey Project

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**EXECUTIVE SUMMARY:**

In May, 2023 the City agreed to apply for state Project Homekey funding in partnership with St. Vincent de Paul (SVdP) to create a 22 unit apartment complex at 845 Gravenstein Highway North. The Council was not made aware that the Homekey programs requires that the sponsoring jurisdiction bears the financial responsibility for the project, thus creating risk to the City. SVdP recently hired Mark Krug to assess the risks to the City on our behalf.

Mr. Krug identified significant risks, particularly in development and construction costs; SVdP largely disagrees. There appears to be a gap of at least \$3.6 million between Mr. Krug’s estimates and SVdP’s; it may be \$5 million.

Mr. Krug’s analysis illustrates that the application for Homekey funding substantially under-counted available funding for on-going expenses; there are some relatively minor risks in this area.

SVdP is willing to fund the City’s costs and to hire an expert to meet the City’s requirements, including negotiating contracts with SVdP and the state.

The project will require additional time for services from the Police and Fire Departments given the expected population should the project be built.

There is a greater short-term risk of RV encampments in the City should the project not be built.

While the state has been supportive of Homekey projects, it faces major financial challenges of its own. And ultimately it places the burden of risk on cities such as Sebastopol.

The City faces major financial challenges, including projected deficits of nearly \$3 million/year for the foreseeable future absent additional revenues or budget cuts.

**BACKGROUND:** In May, 2023 the City Council approved an application to the state for Project Homekey funding in collaboration with St. Vincent de Paul. The project is to create and operate a 22 unit apartment complex for extremely low income individuals experiencing homelessness at 845 Gravenstein Highway North. This would be a permanent supportive housing (PSH) project, providing permanent housing and supportive services for high-needs individuals.

PSH projects are a key part of the continuum of services needed to address homelessness. Most and perhaps all of those living at the project would be placed by a County-wide system known as Coordinated Entry. Some residents would be from Sebastopol while others would be from elsewhere in the County, much as other PSH projects in the County include residents from Sebastopol and elsewhere. The new units represent approximately

2% of the regional goal for new PSH projects over the current five year planning period, and roughly 1% of the total County-wide units should planning goals be met.

The Council resolution approving the application for this project noted that “St. Vincent de Paul will be responsible for the construction and operation of the project.” The staff report noted that “The City would develop an agreement with St. Vincent de Paul should the grant be awarded to ensure all project costs are paid by St. Vincent de Paul.” On February 21 the state provided conditional approval for the project.

The staff report did not note that, in the view of the state, the City has ultimate financial responsibility for the project, including construction and 15 years of operational costs. The Director of the state Housing and Community Development Department confirmed this expectation in a phone call with staff. The Director noted, and staff has heard this from other cities, that some jurisdictions are reluctant to sponsor Homekey projects because of the 15 year financial commitment.

St. Vincent de Paul (SVdP) is willing to sign an agreement with the City to take on full responsibility for the project. They have considerable resources (reporting \$23 million in property assets in Sonoma County), significant experience in providing services for those experiencing homelessness, and are opening their first PSH project (The Commons) in Santa Rosa. This is a high priority project to which they have made substantial commitments. Still, there is financial risk to the City should SVdP be unable or at some future point become unwilling to fulfill the commitment.

Concurrently, the City is in the midst of a Council-declared fiscal emergency. Recent projections include deficits averaging nearly \$3 million/year over the next 10 years. This does not include \$1.4 million/year needed to improve the City’s streets. The duration of the Gravenstein Commons project and financial risks coincide with these projects, including the anticipated peak payments of unfunded pension liabilities. Addressing these fiscal challenges is a top City priority.

For a variety of reasons, including the state’s requirement that the City assume the financial risks for the project, the City’s fiscal condition, the sizeable financial amounts associated with the Gravenstein Commons project, and the lack of City time and expertise to assess the risks to the City, SVdP agreed to fund an “Independent Assessment and Review” of the project (Attachment 1). Mark Krug, widely-respected locally for his expertise on homelessness and particularly the financing of affordable housing, conducted the Assessment and Review. His resume is Attachment 2. SVdP’s response to his report is Attachment 3.

Additionally, there may be a connection between this project and the placement of recent residents of the Horizon Shine Village RV parking program. This is discussed below.

**ANALYSIS:**

Capital Funding: Mr. Krug’s analysis identified numerous concerns regarding the financial risks to the City. These are reflected in the recommendations that start on page 1 of his report. The most significant concerns are about the costs and SVdP’s plans to develop the project. He suggests that the City not proceed until the development budget has been resubmitted and assessed and that sufficient and compatible funding sources are committed. Meeting these requirements would likely jeopardize our ability to meet the May 17 deadline.

This risk is discussed in the “Capital Budget” section of his report that starts on page 6 and reflected in the Conclusion section on pages 10-11: “At the time of this writing, the information about the site and building plans are incomplete and projected capital development cost likely significantly underbudgeted. The total development cost is likely close to \$5M more than the incomplete budget found in the Homekey funding application. This is a

serious concern as there is significant risk to both SVdP and the City should the development of this project begin but then run short of capital funding prior to completion.” He estimates total construction costs of \$12.1 million (p. 6).

SVdP believes that Mr. Krug’s has included \$1.4 million in costs that SVdP has already covered, such as acquiring the site (see Attachment 3). If that is the case (and we have not reviewed this point with the parties), then the funding required would be \$10.7 million. This is nearly \$5 million above the \$5.8 million applied for and approved by the state, including construction contingencies.

Pointing to its recent experience with The Commons project in Santa Rosa, SVdP does not expect these costs to exceed \$7.1 million. It has added \$645,000 of its funds to the project. If needed, it plans to use \$671,215 that was awarded for operations to reach \$7.1 million. Mr. Krug suggests that SVdP and the City ask the state to re-direct the \$671,215 to the capital expenses, noting that such requests are generally granted. He believes that these operating funds are unnecessary because SVdP mis-calculated the funds available from housing vouchers.

This leaves a gap of about \$3.6 million between the (unvalidated) adjustments to Mr. Krug’s analysis and SVdP’s projections. This is a significant gap and potentially poses a significant risk to the City, and is the primary reason that staff recommends terminating our participation.

Mr. Krug points to the value of physical attributes such as controlled entranceways and security cameras (see p. 11). SVdP has indicated that while these are not included in their budget, they plan to fundraise for them later. It is unclear if they are part of the design.

Mr. Krug’s report (p. 13) notes the strong state support for homelessness funding, and the passage of Proposition 1 which provides \$6.4 billion for mental health and homeless services, including PSH projects. He also notes that should Gravenstein Commons be at risk of financial collapse in the future that it would likely look for options to resolve the problems rather than seeking a return of funds. At the same time, he notes that while rare, major non-profits do fail, pointing to the recent experience of Social Advocates for Youth in Sonoma County. While the state has been supportive of Homekey projects, it still requires cities to take on the financial risks.

Operating Funding: Regarding operational funding, Mr. Krug’s analysis (which starts on page 7 of his report) reflects confidence that SVdP will be able to fund most of these costs. He notes that a shortfall begins in year 5 and grows annually. He suggests that SVdP re-direct its planned contribution of \$1.2 million in operational funding to cover those longer-term costs. Staff support this approach, although we are concerned that the longer duration of the project and funding commitments come with inherently corresponding greater risks. For example, while SVdP has demonstrated a strong fundraising record and support for homelessness programs, there is no guarantee that those abilities and priorities will remain for the duration of this project. This reflects the uncertain nature of a 15 year project. Boards and management – and organizations’ priorities and financial conditions – can change over time.

To support any operating funding gaps, SVdP plans to pursue other funding sources, which could include a different type of vouchers (Project Based) with higher payments than the Housing Choice Vouchers it is planning to use initially. It intends to pursue back-stop funding from the recently-passed Proposition 1 measure. Those funding decisions will be made by the Board of Supervisors. Consistent with Mr. Krug’s recommendation to obtain firm funding commitments before the City commits to the project, staff do not recommend that the City assume approval of this funding until it is committed. SVdP also has a strong fundraising history and has indicated that the gap in operations would be \$50,000/year which it believes that it could cover.

Administrative Funding and City Capacity: Mr. Krug's report (p. 11) notes that there are substantial City requirements during the development phase of the project; staff from other cities with Homekey projects have told us the same. Those that we are aware of have dedicated housing staff with considerable experience and expertise which the City does not have and cannot afford to add.

SVdP initially committed no more than \$100,000 toward the City's administrative costs for the project, which would be substantial from now through development should the project proceed. SVdP now recognizes that we do not have the staff expertise required for a Homekey project, that costs could well exceed the \$100,000, and that Mr. Krug identified up to nearly \$200,000 in funding needed for his recommendations. SVdP has agreed to cover all City administrative and legal costs for the duration of the project. They have also agreed to hire experts to handle all of the City's responsibilities, subject to City approval. They have identified a candidate for this role, subject to a City decision to proceed with the project. They have agreed to cover the City's costs related to development of the project, including reviewing agreements with the state and submitting all documents to meet all deadlines.

Mr. Krug's report notes that the on-going administrative efforts should be minimal, with the state providing significant guidance. Because of SVdP's willingness to cover the costs and provide the required expertise, staff do not consider the administrative issues to pose significant risks to the City.

While staff do not know all of the details of the requirements should the City proceed with the project as we do not have housing experts nor Homekey experience, some of the responsibilities include:

1. Drafting an agreement with SVdP to add some assurance that it will cover all project costs. Draft elements of this agreement – not reviewed in depth by City staff – are in Attachment 5.
2. Negotiating a required Regulatory Agreement with SVdP, which might incorporate the SVdP commitments and would also:
  - Deed restrict the units as affordable per HCD requirements;
  - Outline the operational requirements, and the responsible party (SVDP) for such operations;
  - Outline oversight requirements by the City
3. Reviewing and possibly negotiating the Standard Agreement required by the state.

Timing: While the state has timing requirements for this project, staff does not fully understand them given the limited time to prepare this report, our lack of housing expertise, the complex nature of the Homekey program, and changing information. For example, the state may be expecting the City to approve and return the Standard Agreement in May. SVdP has indicated that the state is typically flexible on such matters so long as the project is proceeding at a reasonable pace. There are also timelines for construction. SVdP reports that the state typically extends these, although Santa Rosa staff has said that there are limits to these extensions. These are among the issues that the expert to be hired at SVdP's expense while reporting to the City would address.

Impacts on Police and Fire Departments: As noted on page 12 of Mr. Krug's report, the project would likely increase the number of calls for Sebastopol police and fire services compared to other uses of the site. The Police and Fire Chiefs expect the impacts on the Department's time to be no more than the Horizon Shine project.

Legal Risks: Per the City Attorney, there are no legal risks with the State or SVdP should the City withdraw from the project.

Risk of Not Proceeding with Gravenstein Commons: There may be some risk associated with not supporting the Gravenstein Commons project linked to the recent closure of Horizon Shine Village. Pending the City's decision to proceed, approval of a use permit from the City of Santa Rosa, site preparation at a cost of \$40,000 to SVdP, and



state approval, SVdP will commit five units to people displaced from Horizon Shine Village. To bridge the gap until the opening of Gravenstein Commons, St Vincent de Paul is planning safe parking for 5 vehicles (housing 5-7 people) temporarily at The Commons project in Santa Rosa. Those vehicles are at a Santa Rosa RV park, supported by Sonoma Applied Village Services. At staff's request, SVdP has requested that the state validate these plans for locating residents at the project, as they differ from those submitted in the Homekey application; as of this writing we do not have a response.

If the Gravenstein Commons project is not supported, the project will not be built, and the 5 units and parking spots in Santa Rosa will not be available to former Horizon Shine Village residents. These 5 vehicles may return to Sebastopol. This increases the potential for a new encampment due to the length of time many of those at Horizon Shine Village considered Sebastopol their home. At the time of closure, many had been at Horizon Shine Village for the two years that the safe parking program was in place. For some, their connection to Sebastopol goes back further as Sonoma Applied Village Services prioritized placement of vehicular unhoused who had been in Sebastopol for the longest span of time.

A new encampment would raise financial and other risks for Sebastopol. There is no guarantee that an encampment will be prevented by SVdP's plans, but elimination of those units and temporary parking spots increases that risk.

As of this writing, staff have identified nine RVs in Sebastopol which we believe are being used for housing, four of which were at Horizon Shine Village.

Regional Housing Needs Allocation: The impact of withdrawing from the project on the City's Regional Housing Needs Allocation is unknown. The Woodmark project includes significant numbers of low income housing units. We believe that the developer has paused the second phase of the project.

- If the full Woodmark project is completed in full within the next seven years and Gravenstein Commons is also completed, we will comply with the RHNA requirements.
- If the full Woodmark project is completed and Gravenstein Commons is not completed, then the City will be a few units short in meeting the RHNA requirements unless another project adds these units in the next seven years.
- If the Gravenstein Commons project is completed and the remaining part of the Woodmark project is not completed we will not meet the RHNA requirements unless another project adds these units in the next seven years. We will comply with the RHNA requirements for Very Low income category, and would need 18 additional units by 2030 in the Low income category.
- If the full Woodmark project and Gravenstein Commons are not completed then we will fall significantly short of our RHNA requirements.

St. Vincent de Paul Commitments: Attachment 4 reflects St. Vincent de Paul's commitments to the project. Staff have concerns with some of the material in that document. We consider HUD Permanent Supportive Housing funding to be a potential but speculative source of funding. Also, the document cites \$671,215 in guaranteed operating funds that SVdP has identified for potential for transfer to the project's capital budget.

Alternative Uses for the Site: The property is in the General Commercial Zoning district, which allows a variety of commercial uses such as retail, personal services, restaurants, office, and mixed use with any of these plus residential. Affordable housing is allowed as well. Other uses require a conditional use permit, including automotive uses, tasting rooms, etc. The full list of allowed and conditionally allowed uses is listed at the following Municipal Code link: <https://sebastopol.municipal.codes/SMC/17.25>

**COMMUNITY OUTREACH:**

This item has been noticed in accordance with the Ralph M. Brown Act and was available for public viewing and review at least 72 hours prior to schedule meeting date.

**FISCAL IMPACT:** The material above and attachments describe the potential fiscal impacts of proceeding with the project.

**OPTIONS:**

1. The City Council can cease participation in the Gravenstein Commons project. The City would have no financial or legal obligations to the state or SVdP.
2. The City Council can approve proceeding with the project. This would include:
  - a. Approving the attached resolution required by the state for it to provide its required Standard Agreement to the City. This resolution corrects minor items from the Resolution approved by the Council in May, 2023.
  - b. Directing staff to draft an agreement for Council approval at the soonest possible Council meeting (unless the Council delegates authority to sign such an agreement to staff) with SVdP to pay for a third party expert to work on behalf and at the direction of the City and to pay for all of the City's legal and administrative costs, including a Regulatory Agreement with SVdP for the purposes noted above, and a Standard Agreement with the state.

**ATTACHMENTS:**

1. Gravenstein Commons Project Independent Review and Assessment
2. Resume for Mark Krug
3. St. Vincent de Paul presentation responding to Review and Assessment
4. St. Vincent de Paul Commitments Document
5. Draft Elements of SVdP agreement with City of Sebastopol
6. Resolution amending May, 2023 Resolution to allow City to obtain draft State Standard Agreement

ATTACHMENT 1

**Gravenstein Commons Project Independent Assessment and Review**

By: Mark Krug, March 21, 2024

**Executive Summary**

Saint Vincent de Paul’s (SVdP) Gravenstein Commons project in north Sebastopol is a proposed Permanent Supported Housing (PSH) project that would provide 21 studio apartments for homeless individuals plus a resident manager’s unit for 22 units in total. California PSH projects have been developed for decades with exponential growth in new projects in recent years due to multiple state initiatives including the Homekey funding program that has provided SVdP a funding award of \$5,778,020 for Gravenstein Commons. Per Homekey program guidelines, local government, in this case the City of Sebastopol, is a required co-applicant and as such, carries financial risk and responsibilities in the successful completion and operation of the proposed project.

A review of the Homekey funding application and ancillary documents for Gravenstein yielded the following recommendations for SVdP and the City of Sebastopol as further detailed in the accompanying full project analysis:

<b><i>Saint Vincent de Paul Recommendations</i></b>	<b><i>City of Sebastopol Recommendations</i></b>
<p>1. Incorporate into the design to the extent possible “best practices” elements for PSH including, but not limited to, a) controlled vehicular and pedestrian entry and exit through security gates and doors and use of security cameras, b) inclusion of ample social gathering places inside and outdoor and a plan for a smoking area, c) HVAC controls with “auto shutdown” capabilities, d) a furnishings plan that acknowledges a high degree of “wear and tear” as well as bed bug resilience, e) providing more ADA mobility units than legally required to match high demand for these units from the target population, at least 4 units, and f) account for the differences in bike and vehicle ownership and maintenance versus a non-PSH development.</p>	<p>1. Engage a qualified consultant or firm to a) assist with the drafting, review and execution of Homekey financing closing and related documents, b) assess the completeness and accuracy of the proposed project capital budget, and c) assess that the level of committed funding sources is adequate for the development budget and fully compatible with the project as proposed. <u>Estimated cost</u>: \$10k to \$25K depending on scope or up to \$50k if construction management representation is desired.</p> <p>Further, if existing legal counsel resources are insufficient to provide legal review of financing and related documents, engage outside counsel for this purpose. <u>Estimated cost</u>: up to \$25k.</p>
<p>2. Engage a qualified consultant or firm to assess, refine and re-draft the capital development budget to accurately and conservatively project all development costs and confirm that the construction cost estimate factors in state prevailing</p>	<p>2. The city does not “greenlight” the project to proceed until which time the development budget has been resubmitted and assessed per 1b above and that sufficient and compatible</p>

<p>wages as required by Homekey funding. Budget should include at least a 10% contingency line-item for both soft and hard costs</p>	<p>funding sources are committed per 1c above</p>
<p>3. Develop a management plan (a required submission to the state for Homekey funding in any event) and include a provision allowing the City to approve in advance the personnel or firm hired for initial property management and any material future changes thereafter.</p>	<p>3. Include in the consultant’s scope of work the review of SVdP’s draft management plan to assure adequacy and experience of key personnel and that city interests are met in provision of the plan, including property security and community relations protocols and procedures. <u>Estimated cost:</u> included in 1 above</p>
<p>4. Work with staff of the Sonoma County Housing Authority and Coordinated Entry either directly with SVdP staff, or through a consultant, to review and assess the options and consequences surrounding Housing Choice Voucher rental assistance, i.e. project-based versus tenant-based. Develop written lease-up procedures that align with the Housing Authority and Coordinated Entry eligibility and documentation requirements.</p>	<p>4. Ask consultant to review lease-up procedures, assumptions and protocols for overall feasibility as well as consistency with the requirements of the Housing Authority and Coordinated Entry. Ask the consultant to monitor the lease-up process to assure compliance with all public sector requirements. <u>Estimated cost:</u> included in 1 above.</p>
<p>5. Ask the SVdP board of directors to reaffirm their commitment of \$1,257,407 in internal operating subsidy but amending the term to a minimum of 15 years, indefinitely is preferable.</p>	<p>5. Engage or make plans to engage a consultant for representing the City’s interests in resolving a future “work-out” scenario or financial default should that occur. <u>Estimated cost:</u> \$10,000 to \$20,000</p>
<p>6. Include in the capital budget a set-aside of \$100,000 to pay for near-term and future City of Sebastopol projects costs as identified in this summary.</p>	<p>6. Establish a fund or bank account of \$100,000 funded by the Gravenstein Commons capital project budget to pay for actual and potential City short- and long-term project costs.</p>

## Gravenstein Commons Project Independent Assessment and Review

By: Mark Krug, March 21, 2024

### Introduction, Context and Overview:

Permanent Supported Housing (PSH) properties serving homeless persons by offering affordable housing coupled with supportive services have existed in California for decades. However, in the last five years, there has been an exponential expansion of new PSH facilities statewide due to State of California policy and funding initiatives, most notably, the Homekey funding program. The Homekey program provides capital funding to finance the development of new or renovated PSH facilities and operational support, generally limited to five years.

Because of this recent explosion of new funding for PSH development, many affordable housing developers and homeless service providers have begun developing PSH whether or not they have done so historically. Thus, in statewide advocacy and industry groups, a great deal of information sharing and training has transpired over the last several years. The consensus among affordable housing developers is that the long-term financial risk is presently higher for PSH development than it is for non-PSH development. This is, in part, due to the “newness” of this type of affordable housing development for many developers as well as the expected volatility of the tenant base and the need for extensive support services and, perhaps, private security. The majority of currently active PSH developers see the success of PSH projects in California largely based on the parameters detailed in the next section.

*Disclosure: While I am doing this assessment and analysis of St Vincent de Paul’s (SVdP) Gravenstein Commons planned project as a private consultant, I am a part-time employee of Burbank Housing. Thus, the project examples and comparable properties I use here are exclusively Burbank projects as that information is most accessible to me.*

### Successful PSH Project Parameters:

1. Capital Budgets Embellished in Key Areas: PSH development budgets tend to be higher than “generic” affordable housing projects because the following budget line-items are typically higher:
  - a. Furniture and furnishings: Homeless persons are rarely in a position to provide their own furniture and apartment furnishings and thus, the developer will need to fully furnish the unit. Often, when selecting flooring and furniture, soft surfaces are avoided to mitigate the presence of a friendly bed bug environment. PSH furniture is frequently purchased from vendors specializing in heavy-duty institutional furniture that has a longer life span and more resilient to bed bugs, hard use and handling. Another approach is the “thrift store” approach keeping purchase amounts quite low but acknowledging the need to replace items on a much more frequent basis and not typically mitigating against bed bugs.
  - b. HVAC controls: These are often more sophisticated so that, for example, if a door or window is left open during cold weather, the systems will recognize that state and automatically turn off the heat to avoid wasting energy.
  - c. Socialization space: Recognizing that many homeless people will find apartment living a difficult adjustment and because the risk of social isolation is quite high, it is highly



desirable whenever possible to provide for multiple indoor and outdoor places on site for small and medium sized groups of tenants to convene. This is relatively easy for new construction and can be quite difficult for renovation projects, such as motel/hotel conversions. Identifying an appropriate outdoor smoking location is also a goal.

- d. Number of ADA Units: Typically, public funding triggers a requirement that 5% of the units are fully ADA accessible. In “generic” affordable housing, this level appears to consistently provide more than meet the actual need. However, with PSH, the opposite is true. Many PSH developers increase above the minimum mandate of 5% to perhaps 10% or higher because of actual demonstrated need. This is a design and cost issue.
  - e. Reserves: It is common in PSH projects to see capitalized operating and replacement reserves higher than non-PSH projects. This reflects the general awareness of higher financial risk to the project than would be the case with a non-PSH facility.
  - f. Physical security: PSH projects typically have more security features than non-PSH projects such as controlled gates and entryways and security cameras. The tenants can be vulnerable to “friends” and acquaintances preying on them for “couch-surfing” opportunities or perhaps to establish a place to sell illicit drugs. Measures are needed to identify and reduce this behavior, including physical installations.
2. Property Management Can be More Challenging: PSH is independent living and not custodial care and can be highly challenging in terms of property management. The tenant base will likely differ from the general population in many ways. One, PSH tenants will be smokers at a higher rate and that creates management challenges as many jurisdictions require non-smoking buildings. Two, PSH tenants will have more bikes and fewer vehicles than the general population and a higher percentage of unlicensed and/or inoperable vehicles. More broadly, transportation challenges are profoundly more of a problem for PSH tenants than the general population. Three, PSH tenants will disproportionately have behaviors that impact the community and for many tenants moving indoors after prolonged outdoors living, acclimating to apartment living can be extremely challenging. Four, PSH tenants are highly vulnerable to being exploited by others, perhaps people they knew “on the street” as noted earlier. Lastly, PSH tenants often have more complex and debilitating health issues and other personal and social issues. Thus, property management staff need to be employed based on their ability to successfully navigate these extra challenges with an artful blend of empathy and professionalism.
  3. Operating Expenses Will be Higher: Most PSH operators budget certain operational expenses at a higher amount than they would for a non-PSH rental housing facility. For example, pest control costs are typically higher because of the increased threat of bed bug infestations. Vacancy costs are often higher because, typically, referrals for vacancies come through the local Coordinated Entry program and that can be much slower than a traditional wait list management situation. Repair and maintenance budgets are usually considerably higher given the historical costs associated with serving formerly homeless tenants. Property management and maintenance staff personnel costs are typically higher than a similarly sized and situated non-PSH property.
  4. Services and Security are Critical Operational Areas: Under “Housing First” guidelines, services are offered, but cannot be mandatory. Still, the provision of services by a professional and highly competent service provider is universally recognized as critical to the success of any PSH project. Property management staff are trained and responsible for caring for the property, the community and for lease enforcement. Thus, they cannot realistically avail themselves to assist

individual tenants in need of support, guidance, or advocacy. Having on-site service delivery staff separate from property management staff is critical to help assure tenants are successful in maintaining their housing and for improving their well-being in general. Security is also an important feature. Many property management challenges can be addressed or mitigated by the presence of on-site, paid third-party private security. While it is possible, especially for small projects, to have property management and services personnel provide a *de facto* security presence by the nature of staff scheduling, for medium and larger projects, third-party security agencies are typically hired to provide professional, on-site security. Such security service is largely to protect the tenants from, for example and as mentioned earlier, predatory “friends” seeking a place to crash, or deal drugs, et cetera. Supportive services staff and security are expensive services. The industry has learned through experience that projects and their tenant bases are most volatile in the early months after lease-up. Thus, many PSH developers budget services and security at high amounts initially and then plan for those costs to decrease over time, usually starting with year two. Intensive levels of support staff and security staff in early months establish the operating standards for tenants and other parties and once a property has stabilized, it is not necessary to maintain intensive levels indefinitely. In some instances, private security is eliminated after a period of stable operations.

5. *Rental Assistance is Mandatory*: Given that homeless tenants usually have zero or extremely low incomes, coupled with, as noted earlier, operational costs for PSH running quite high, the existence of rental assistance proves to be essential for PSH project success. This typically takes the form of a Housing Choice Voucher program (Section 8) award of Project Based Vouchers (PBV). If all, or nearly all, of the PSH units have PBV rental assistance “attached”, this allows for the total rental to be near market rate rents which, in turn, helps cover the additional expense of PSH operations. Otherwise, operations would require a substantial influx of operational subsidy of some kind each and every year.
6. *Understanding Coordinated Entry and Housing Authority Processes Critical*: Presently and for the foreseeable future, PSH projects will be required to have a sole-source of tenant referrals, namely, the local or regional Coordinated Entry (CE) program. The CE program prioritize clients based on a vulnerability assessment of each homeless individual in the system. The vulnerability score is additive and includes such factors as age, major health issues, disabilities, length of homelessness, and so forth. Those with the highest vulnerability scores are at the top of the referral lists. Thus, in practice, PSH projects will be customarily referred people with greater acuity of need. PSH operators need to have an in depth understanding of how the CE system functions, especially the case conferencing function, and how the CE processes aligns, or misaligns, with other administrative processes such as PBV eligibility requirements. And, as implied throughout the above sections, PSH operators need to design their facilities, budgets and hiring practices to ready their organizations to house homeless people with high levels of need.

### **Assessment of the Gravenstein Commons PSH Proposal**

Using various documents provide to me by the City of Sebastopol staff and from the sponsor/developer St Vincent de Paul, and comparable project data from Burbank Homekey project completed or under development, I will assess the proposal based roughly on the above six parameters and then conclude

with a discussion of financial risk to the City of Sebastopol. An important caveat here is that the site was not assessed nor have building plans been provided for assessment. Thus, the analysis below regarding the development feasibility is based on typical development projects and budgets, but not this site in particular.

**Capital Budget:** When initially reviewed, the development budget found in the Homekey application was found to be incomplete. For example, budgeted costs for architectural and engineering and for city permit and impact fees were missing. Further, construction “hard” costs seemed low. Provided estimates are based on union wages which should, in theory, materially meet state prevailing wage requirements as triggered by Homekey funding. Before construction finance closing, SVdP should confirm the construction wages in the budget comply with then-current state-published prevailing wages. The budget in the Homekey application indicates total development cost of \$327,320 per unit. A more realistic cost, based on comparable, local projects, is \$500,000 - \$600,000 per unit. Using a midpoint from this range of \$550,000 means a total capital budget of \$12,100,000 compared to the Homekey figure of \$7,201,040, nearly a \$5m difference. After some back-and-forth communication with SVdP, the development budget was increased to \$485k/unit which is still likely a low number, but at least potentially feasible. SVdP should be requested to generate a comprehensive development budget that accounts for many line-item costs missing in the Homekey presentation and confirm compliance with state prevailing wages. Engaging a consultant or a firm to assist with this seems prudent. Further, it is recommended that the city not “greenlight” the project until SVdP has produced a credible and complete development budget that includes at least a 10% contingency for both hard and soft costs and further, SVdP demonstrates they have secured 100% of the project development financing. Otherwise, as Homekey “co-signer”, the city would take on substantial financial risk if the project development started, but was not adequately funded.

**Property Management Approach:** In the attached budget analysis, Gravenstein Commons’ operating budget is very much in line with the six comparable Burbank Housing properties including both support services costs and all other operating costs. Thus, it appears adequate resources will be available for successful operations at Gravenstein Commons provided budgeted amount and actual amounts are similar. SVdP has a staff person, the Director of Housing, who is a state-licensed property manager. It would be appropriate for the City as Homekey “co-signer” to require SVdP to get advance approval from the City for the initial property management plan and any future changes to the plan, including the selection of property management personnel, be they in-house or third-party. If the city does not feel qualified to do this evaluation, outside assistance should be obtained. Related and in any event, the Homekey program will require a submission of a property management plan to State HCD for their approval in advance of closing the Homekey financing. This is important because it is essential that PSH properties are managed by staff with expertise in state tenant-landlord law, lease enforcement, and other elements of professional residential property management. Some industry leaders advocate that property management should be provided by an entirely separate entity or department than support services. The reasoning is that lease enforcement, protecting the larger community and other tenants can be at odds with advocacy and support of individual tenants so a bright line separation of those two functions is optimal. SVdP does property management in-house and the Director of Housing supervises PSH support staff. Thus, one entity/department provides both property management services and support services. While this doesn’t achieve the level of separation some in the industry feel is ideal, it

does, at the same time, offer benefits. Namely, communication. One of the hallmarks of an efficient and effective PSH operation is constant and complete communication between property management personnel and support services personnel about operations and tenants in real time. With the SVdP model, this level of communication is more likely to happen than in the model where property management staff and support services staff report to different managers or different organizations. If SVdP continues to expand their PSH portfolio, it may make good sense to separate property management and support services into distinct operational departments but at this stage, the blended model can function well and is appropriate for the size of the agency.

SVdP does plan on scheduling support staff with evening and weekend shifts. This is important because it is a strong mitigation against the lack of paid private security. SVdP also plans on installing security cameras, another measure that assists with property security. It is recommended that the property, if it is not already planned, have security fencing and controlled entry ways to control vehicular and pedestrian traffic for security purposes.

**Operational Budget:** As noted above, the operational budget is in line with similar Homekey and other comparable PSH properties used in the analysis as comparables. Regarding support services staffing in particular, SVdP projects 2.0 FTE staff supporting tenants in the 21 units. This is a favorable ratio of staff to clients. The industry convention is that a case management to client ratio should be 1:20 or less. Of the 2.0 FTE projected support staff at Gravenstein Commons, 1.5 FTE are case managers which, for 21 clients (all Gravenstein units are studios so occupancy/unit greater than one will be uncommon), the ratio is 1:14.

The maintenance budget is another high concern for PSH because that budget line-item should generally be appreciably higher than general population affordable housing projects. The Gravenstein budget for maintenance is in the “middle of the pack” of comparables so the budget amount appears adequate. There is no budget for an upfront capitalized replacement reserve which would provide more “cushion” against high and unexpected repairs that might occur in early years of operations. But in fairness, of the seven budgets studied, only two projects have a capitalized replacement reserve. Importantly, the operating budget does contemplate \$500/unit/year going into a replacement reserve, a standard amount for most Homekey-funded projects.

The Gravenstein Commons operating budget does not contemplate paid, private security. About half of the comparables do so. For a small property like Gravenstein, this is not surprising as security is quite expensive. Typically, costs are \$35-\$40/hour and usually, must be booked in increments of 8-hour shifts. Thus, for example, wanting 5 hours of security each evening is probably not feasible, it is either zero, 8 or 16 hours. As discussed earlier, security is really about protecting tenants who can be quite vulnerable to exploitation by friends and acquaintances. SVdP will need to manage this situation with property management and support staff and having evening and weekend support staff shifts helps a great deal in this regard.

**Rental Assistance:** Virtually all affordable housing funding sources require the applicant to target future residents at one or more income levels defined by the HUD Area Median Income (AMI) income tables generated annually, typically by county. Gravenstein Commons chose to target 30% AMI tenants, a

typical PSH tier, meaning that the studios would be occupied by individuals with annual gross incomes up to \$26,450 using the most recent HUD figures (2023). The rent formula that most every funding source uses, including Homekey, calculates the affordable and restricted rent at 30% of the gross income. For Gravenstein, this comes to a monthly rent of \$661 ( $\$26,450 \div 12 \times 30\%$ ). Evidently, at the time SVdP completed their Homekey application, the then-current figures were 2021 or 2022 figures so the Homekey application calculated affordable rent for a studio was a slightly lower figure, \$624/month/unit.

However, while not necessarily logical or intuitive, if a rent-restricted unit is subsidized by a Housing Choice Voucher (a.k.a. Section 8 voucher), the rent can be near market as established by the local Housing Authority when they publish maximum allowable rents by unit size, called Payment Standards. The Sonoma County Housing Authority currently sets the Payment Standard for studios at \$1,772/unit/month. When a unit is subsidized, the tenants pays 30% of their gross income and the Housing Authority pays the difference up to the Payment Standard. The tenant portion must be no more than the rent for non-subsidized units, in this example, \$624 (\$661 using the most current tables).

SVdP apparently did not know of this provision and therefore, modeled total rent collection at \$624/unit/month rather than what is actually allowed, \$1,772/unit/month. Thus, in their Homekey application they dramatically understated the project's potential gross income. Specifically, SVdP projected gross income (before a vacancy factor) at \$157,248 but the actual projection should be \$446,544 using the current Payment Standard, a very large and material discrepancy.

Because PSH operations are more expensive due to support services provision and other factors discussed earlier, ongoing rental assistance is needed for financial feasibility. Also, importantly for PSH projects, Housing Choice Voucher subsidy allows the property to house individuals with extremely low income or zero income. Most commonly, subsidy is in the form of Project-Based Vouchers (PBVs) awarded by a local Housing Authority from their Housing Choice Voucher (Section 8) program. When PSH units have a PBV "attached", the collected rent provides adequate cashflow for funding services and other operational expenses. For larger projects, this enhanced cashflow can often cover security costs but for smaller projects, the lack of economies of scale will usually not allow for security costs to be covered from the rent and subsidy stream. That is the case with Gravenstein Commons.

SVdP is unique in their approach to rental subsidy for Gravenstein. First, SVdP board unanimously approved a resolution in November 2023 to provide \$1,257,407 in agency funding to provide operational/rent subsidy for the first five years. However, because of the aforementioned miscalculation of potential gross income, for year one in the corrected Homekey cash-flow model, no subsidy beyond voucher subsidy is required as the project shows a small positive net income of \$9,451. A standard convention in financial modeling of affordable housing projects is to model annual income escalation at a smaller figure than annual expense escalation. Frequently, as with Gravenstein, at 2.5% and 3.5% respectively. In the corrected model, yearly cashflow is positive until year five before turning into small and slowly growing deficits. Thus, it is recommended that the SVdP board maintain their commitment of \$1,257,407 in operational subsidy but re-stated so that the term for use of those funds be extended much longer, to 15 years or ideally, indefinitely.



In a unique and uncommon approach to Housing Choice Voucher rental assistance other than the typical PBV award approach, SVdP sought and received special dispensation from HUD to allow referrals from CE to be restricted to those already possessing a tenant-based Housing Choice Voucher. This is a rare special dispensation from HUD but one that SVdP is also using, successfully, with their Santa Rosa Commons project, leasing up at the time of this writing. While the dispensation would allow Gravenstein Commons to house existing tenant-based voucher holders and could eliminate the need for PBV's, its one drawback might be the limited number of existing voucher holders who are also homeless and enrolled in CE. That is, over time, will there be an adequate number of people who have a voucher, meet the Homekey homelessness eligibility criteria, and also enrolled in Coordinated Entry? At Santa Rosa Commons, this "small cohort" problem has not materialized but it does seem like an issue to monitor over time. Thus, pursuing a PBV award remains a logical goal and SVdP does intend to seek a PBV award. That said, if the tenant-based voucher approach is successful in early years and it appears the small "cohort problem" does not manifest, then foregoing a PBV application could make operational sense.

To summarize, SVdP has two paths for federal rental assistance, each with different risks to the project and therefore, to the city. The "special dispensation" tenant-based path appears to already be in place as an option and therefore, no risk in achieving this form of rental assistance. The risk here is whether or not the pool of potential tenants is large enough to provide an ongoing referral base. The PBV path is speculative and that is precisely the risk of that pathway – the possibility of never achieving an award even though the likelihood of an award is favorable. Also, while not a financial risk, it should be noted that the target population served will differ somewhat between these two paths. The PBV option will result in serving a higher acuity, more chronic homeless cohort than would the tenant-based "special dispensation" approach.

The Gravenstein Homekey award includes \$671,215 in operating subsidy which is projected to cover operational losses for the first five years only. However, as already noted, there is actually no need for subsidy beyond Housing Choice Voucher assistance in the first five years. Thus, SVdP would be prudent to ask State HCD for the \$671k in ear-marked operational subsidy to be converted to capital funding for hard and soft development costs which are currently underfunded. Such requests are generally granted by State HCD.

If SVdP's does not get a PBV's award for whatever reason, then SVdP would likely rely on the tenant-based voucher "special HUD dispensation" referral model to maintain a tenant base where all tenants have rental income. Having a dual path of tenant-based vouchers or project-based vouchers is a significant advantage SVdP has with Gravenstein Commons. Regarding the likelihood of SVdP garnering a PBV award should they apply, Federal Housing Choice Voucher regulations restrict Housing Authorities from project-basing more than 20% of their total inventory of vouchers. However, that cap can be exceeded – up to 30% - for projects serving special needs populations. In practice locally, "special needs" projects equate to PSH projects. Given the county's prioritization for homeless-dedicated projects, proposals seeking PBV's that serve homeless people are highly favored. The County Housing Authority manager recently stated that the county has the capacity under federal regulations for "several hundred" additional PBV's to be awarded in the coming years. Thus, given all those factors, a future

SVdP PBV proposal has a very high likelihood of success. That SVdP has PSH management experience prior to the opening of Gravenstein Commons bolsters their competitive position for an award of PBV's.

**Coordinated Entry as Referral Source:** Homekey and many other funding sources supporting PSH projects require that all project referrals emanate from the local Coordinated Entry (CE) program. As discussed earlier, in practice this means that referrals will be higher acuity individuals and frequently, people who have lived out-of-doors for extended periods of time. Because these referred individuals can be hard to locate, and then stay in touch with, and because the eligibility documentation is rigorous and exacting (high dependence upon third-party information and confirmation), lease-up time lines can be remarkably slow. This "slowness" applies equally to filling vacancies occurring after the initial lease-up.

When PBV's are in place for a project, there is an administrative burden associated with the rental assistance, most notably on the front end to determine eligibility. This too can be a slow process as, again, eligibility documentation is extensive and usually needs to be third-party verifications, e.g. depending on an employer to confirm the employee's income. When coupled with CE as is the case with many PSH projects, the additional PBV administration burden can result in very slow lease-up time lines, many, many months in most cases. For these reasons, financial underwriting a vacancy factor of 5%, which is typically adequate for family affordable homes projects, can prove inadequate for PSH projects with both a CE and PBV component. SVdP will likely benefit from having tenant based rental assistance in the early years, eliminating the PBV "lease-up" administrative burden. Thus, while PSH projects with both CE and PBVs in place are well advised to use a vacancy factor of 7.5% to 10% for financial modeling, without initial PBV's, the existing underwriting of Gravenstein Common at 5% vacancy is likely conservative enough.

### **Conclusion and Summary of Risks to the City of Sebastopol**

PSH projects present more perceived financial risk than do affordable housing projects serving the general population. Mitigations of that heightened risk include 1) making sure the capital and especially the operating budgets are adequate to cover increased costs relative to general population projects; 2) having property management and support services roles clearly defined and separate from one another; 3) making sure there is extensive and ongoing communication in real time between property management staff and support services staff; 4) securing adequate subsidy - be it the traditional PBV route or other mechanisms – to fund adequate support services and cover other operational expenses; and lastly 5) understanding the impact to a project's finances and operations when utilizing the mandatory Coordinated Entry system and, if applicable, PBV's.

The Gravenstein Commons project appears to meet some, but not all, of these criteria.

At the time of this writing, information about the site and building plans are incomplete and projected capital development cost likely significantly underbudgeted. The total development cost is likely close to \$5m more than the incomplete budget found in the Homekey funding application. This is a serious concern as there is significant risk to both SVdP and the city should the development of this project begin but then run short of capital funding prior to completion.

The operational budget, however, appears very much in-line with other Homekey and non-Homekey PSH projects used as comparables, six in total. The key individual budgets for maintenance and support services appear robust and appropriate. There is no budget identified for private security which is not uncommon for smaller projects such as Gravenstein Commons. However, SVdP plans to provide as much project security as possible through property management and services staff scheduled for evening and weekend shifts and presumably, up front physical attributes such as controlled entryways and security cameras.

However, the critical need for rental assistance and operational subsidy addressed in the Homekey funding application is seriously flawed because the impact of Housing Choice Voucher subsidy is undervalued several fold. Having a tenant-based approach in place is unorthodox and SVdP should be acknowledged for a high degree on innovation. The traditional route of PSH projects relying on a PBV award is modified by SVdP in several important ways. First, gaining a PBV award is assumed to happen after initial lease-up but before the beginning of year six. This actually makes the lease-up process easier and faster. Second, SVdP is committing to providing their own funds for annual subsidy. As initially modeled, they would provide about \$157k in years one through five and potential larger amounts thereafter. However, the need for internal operational subsidy is far less than projected in the Homekey application. Also, the much-reduced need is likely in out years, not in the first five years. Third, SVdP has gained a rare dispensation from HUD to allow referrals from CE to be restricted to only those enrollees who already possess a tenant-based Housing Choice Voucher (a.k.a. as a Section 8 voucher). The cohort of people who'd qualify in this schema is hard to measure but this same model is succeeding at SVdP's Santa Rosa Commons project currently leasing up. This innovation mitigates project operational risk significantly as SVdP is afforded two paths for public sector rental subsidy, a PBV award or the "special dispensation" model using tenant-based vouchers.

The City of Sebastopol's financial risk with Gravenstein Commons appears to hinge on the question of adequate development funding sources rather than ongoing operational subsidy. The initial Homekey development budget could be in the range of \$5m short of what is truly needed. SVdP needs to demonstrate that 1) they have modified the development budget to conservatively but accurately reflect all hard and soft costs; and 2) that they can raise the additional capital to cause sources to match uses of capital funds.

The City's near-term burden will be to assure the project development budget is realistic, the capital funding sources committed, and that the generation and execution of key development documents like a Regulatory Agreement and Homekey financing documents are timely, accurate and in the city's interest. This burden will be material. These tasks are "one-off", short-lived and highly technical tasks that are probably best done by a third-party consultant or consulting firm given that Sebastopol does not have staff with specialized affordable housing technical skills. An early estimate of this consultant cost is \$10,000-\$25,000. This assumes legal review is performed with existing city legal counsel, otherwise, the cost estimate should be increased accordingly. If the city wishes to have a construction specialist engaged to act essentially as an "owner's rep" during the construction process, that would likely cost a minimum of an additional \$25,000, depending on scope.

The City of Sebastopol's future administrative burden for project monitoring and assuring compliance with state Homekey funding should be minimal, but not negligible. State Housing and Community Development (HCD) staff routinely provide repeated forewarning of upcoming due dates for Homekey compliance reports. They also readily provide technical assistance and experience shows they are flexible and forgiving when asked for time line extensions and so forth. City staff are automatically included in all HCD Homekey correspondence since jurisdictions are co-applicants and co-signatories on the state Homekey Standard Agreement. Thus, city staff need not pro-actively calendar Homekey compliance and reporting requirements as HCD staff will do that aspect rigorously and repetitively. Because all referrals must go through Coordinated Entry, the CE staff will help assure that all referrals are eligible for the Homekey project. CE eligibility documentation is very rigorous as there are a host of HUD standards that must be adhered to by all CE operations nationwide, as well as local standards.

Thus, City of Sebastopol long term compliance and eligibility concerns should be minimized by the involvement of HCD and CE staff in the project. Post-lease up, one would expect the impact on city staff for these types of matters to be *de minimis*. The unknown and hard to quantify city burden is the need for city staff to respond to operational complaints from neighbors, city residents or business owners. A compliant that is an unwarranted NIMBY fear or a legitimate concern about project operations will impact city staff just the same. That the current SVdP Executive Director is a former local government elected official is a strength in this regard as he fully understands the critical importance of maintaining SVdP's positive reputation in the broader community and experienced in responding appropriately and constructively to citizens' complaints and fears. But whether he is the SVdP Executive Director at a future date is, of course, unknown. Complaints and issues from residents can arise at any time in the future and if they do, it will cost scarce city staff time to manage and address. Such complaints are far more likely to arise in the early stages of operations and this is why the current SVdP leadership is an important mitigation against undo pressures on city staff time.

In short, the long-term financial compliance and reporting burden that city staff might encounter appears minimal. The shorter-term burden to draft, review and execute documents, assure adequate funding, and then initiate construction followed by lease-up activities is substantial. Another City of Sebastopol risk is managing and addressing complaints from neighbors or others, should they arise. PSH properties will most likely have a larger number of public safety calls compared to other multifamily housing properties. However, nationwide data clearly shows that housing homeless people reduces the number of public safety calls for service overall. In other words, the "extra" PSH calls are more than offset by a reduction in calls regarding unhoused people on the streets. However, when looking at the impacts exclusively on the City of Sebastopol, this "balancing" may not materialize. That is, the reduction in calls for unhoused homeless people may benefit the City but also, other local governments and private system like ambulance and medical services whereas "new" calls for services for Gravenstein Commons will disproportionately impact the City of Sebastopol. The existing policies and processes established by Building and Safety, Planning, Police and other city departments to appropriately respond to citizen complaints are likely robust enough to also manage the incremental area-specific risk of potential Gravenstein Commons citizen's complaints.

Lastly and perhaps most importantly, a major fear for jurisdictions "co-signing" State of California Homekey Standard Agreements is the risk of a future financial collapse or default and the impact that

could have on a city or county government. The fear is heightened in smaller population jurisdictions like Sebastopol because the financial exposure is relatively higher. While defaults of this type are rare, they are real. One only needs to read current headlines about the collapse of the long-time youth-serving agency, SAY, to grasp this sad reality.

Mitigations of this risk are in place for Gravenstein Commons. One, public rental assistance provides adequate funding for assuring support services staffing for many years, backstopped by SVdP's board commitment to dedicate significant operational subsidy if needed. Two, the statewide PSH "industry" is aggressively seeking more state resources for services to support homeless housing. The Achille's heel of many PSH projects is long term funding for ongoing and expensive support services. Thus, state wide lobbying and actions are numerous to improve upon this situation. Indeed, Prop 1 on the March 2024 ballot appears to have the votes to pass, though that is unofficial at this time of this writing. That \$6.4 billion act will significantly improve upon the availability of funding for mental health and homeless services, including PSH support services. In short, resolving homelessness is, and will remain for the foreseeable future, a top state priority and maintaining PSH projects loom large in that effort. That said, the vagaries of all homelessness funding processes, frequently for yearly terms, means that for any given PSH project, there is no certainty of ongoing funding support.

Two, pushed by gubernatorial pressure, HCD is very aggressive in establishing new PSH projects and more globally, resolving homelessness is now a significant part of HCD's mission and operations. Given they are mission driven and not a commercial bank, responses to defaults or potential defaults can reasonably be expected to take the form of problem-solving rather than punishment or clawing back funding. Simple stated, HCD has a very strong incentive to succeed with Homekey and similar initiatives. Thus, if Gravenstein Commons is at risk of financial collapse at some future date, HCD would in all likelihood look to our local community to explore options to resolve rather than simply seeking to demand a return of funds. Perhaps that takes the form of a new operator. Or, perhaps, retooling the population to be served. Whatever the particulars are, it is reasonably foreseeable that HCD would work with Sebastopol, SVdP and the greater community to find a way to keep Gravenstein Commons operational by approving whatever set of changes the stakeholder collectively agree are necessary.

Finally then, it is recommended that SVdP pays to establish a \$100,000 fund or account benefitting the City of Sebastopol to 1) fund the near term, start-up burdens identified earlier using third-party experts, and 2) in the event of a future financial default or similar scenario, the City of Sebastopol would have the resources to hire a consultant or a firm to represent their interests in the matter without depending on city employees to fulfill this function.

# MARK KRUG ATTACHMENT 2

Over thirty years' experience in senior staff positions in the field of affordable housing and homeless program services, predominantly in Sonoma County, California.

## EXPERIENCE

**MARCH 2015 – PRESENT**

**SPECIAL PROJECTS MANAGER, BURBANK HOUSING DEVELOPMENT CORPORATION**

Project manager for new construction and renovation affordable rental housing projects in Sonoma County, specializing in homeless-dedicated housing projects. Internal consultant on homeless policy, funding sources, service deliver and local government homelessness programs.

**MARCH 2005 – MARCH 2015**

**COMMUNITY DEVELOPMENT MANAGER, SONOMA COUNTY COMMUNITY DEVELOPMENT COMMISSION**

Division manager overseeing affordable housing finance and development; homelessness services, funding and policy including the Continuum of Care funding process; construction services; and community service.

**AUGUST 1998 – FEBRUARY 2005**

**HOUSING AND REDEVELOPMENT MANAGER, CITY OF SANTA ROSA**

Division manager overseeing the city's homeless programs and representing the city on the Continuum of Care Steering Committee. Manager of the federal Housing Choice Voucher (Section 8) program for the Santa Rosa Housing Authority.

**APRIL 1997 – AUGUST 1998**

**DIRECTOR OF FINANCE AND ADMINISTRATION, LUTHER BURBANK CENTER FOR THE ARTS**

Develop and implement operational and capital budgets, financial management and reporting, serve on management team, responsible for Information Technologies functions.

**AUGUST 1996 – APRIL 1997**

**DIRECTOR OF FINANCE AND ADMINISTRATION, PACIFIC FOREST TRUST**

Develop and implement operational and project budgets, financial modeling, financial management and cash-flow management, accounting and reporting, Information Technologies.



OCTOBER 1994 – JULY 1996

**SENIOR HOUSING DEVELOPMENT OFFICER**, COLORADO HOUSING AND FINANCE AUTHORITY

Affordable rental housing finance underwriting, project feasibility and risk analysis, technical assistance to local government and non-profit agencies, coordinate complex financial transactions, presentations to policy and community groups.

OCTOBER 1990 – OCTOBER 1994

**EXECUTIVE DIRECTOR**, COMMUNITY SUPPORT NETWORK

Chief executive of non-profit services and housing organization with multiple programs and facilities serving homeless chronically mentally ill adults in Sonoma County. Strategic planning, Board of Directors development and relations, affordable housing development, program administration and 501(c)(3) agency administration

## EDUCATION

1998

**MASTER'S DEGREE IN PUBLIC ADMINISTRATION**, SONOMA STATE UNIVERSITY, ROHNERT PARK CALIFORNIA

1987

**BACHELOR OF SCIENCE, NON-PROFIT ADMINISTRATION**, METROPOLITAN STATE UNIVERSITY, DENVER COLORADO

# Gravenstein Commons

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A 22-UNIT EXTREMELY LOW-INCOME HOUSING COMMUNITY AT 845 N  
GRAVENSTEIN HIGHWAY



# Project Genesis

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Project is a direct response to the impacts to Morris Street, the Barlow, and surrounding neighborhood.

Campers on Morris Street were moved to Horizon Shine Village, with the express agreement and understanding that permanent housing would be constructed on the site, and permanent residence offered to the campers.

The City of Sebastopol asked SVdP to pursue funding opportunities to execute this goal.

SVdP and Sebastopol have been awarded \$6,449,235 by the State, and SVdP has invested over \$1,400,000 out-of-pocket to fulfill this promise to the campers and the greater community.

# Project Details

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22 units total: one on-site resident manager's residence, plus 21-extremely low-income units.

Net-zero energy due to the use of solar (will be the first net-zero permanent supportive housing project in the County).

Enhanced walkability: Conveniently located near shops and grocers.

Continues the property's legacy of supporting people who have lived on the streets for extended periods of time by providing permanent refuge and respite.

Project construction "hard costs" are projected to be \$6,038,000.

Project has received a grant from HCD for \$6,449,000 to support construction and the first few years of operation.

# Project Details Continued...

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The Community will be supported by a 24/7 on-site Resident manager.

Residents will be supported by 1.2 FTE Case Managers who will work 7-days per week at the community (a case management ratio of 1:14 – exceeding the industry standard of 1:20).

Former residents of Morris Street will be offered permanent residence at the new housing community.



# Grant Obligations Overview

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As Co-applicants, both SVdP and the City of Sebastopol are both financially liable for default, or a breach of the Standard Agreement (contract).

SVdP and the City have 18 months to construct the project. The timeline began on March 29th, 2024, and ends once the project is 90% occupied. Extensions are commonly granted without issue, by submitting a “Milestone Extension Request Form” to HCD.

Once constructed, HCD will monitor the project’s operations for five years to ensure operational staffing minimums are maintained, and the property is being used for its intended purpose.

The obligations of the City and SVdP get released after 15 years, at which time both the City and SVdP are released of financial liability.

# SVdP has been working with Staff to Mitigate Risk to the Financially-strapped City.

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1. SVdP has agreed to sign an affidavit that will legally-bind SVdP to be the entity in first position to refund any money to the state in the event of a default or breach of contract.

- Currently, SVdP has over \$23,000,000 in asset wealth that can be drawn upon in an emergency.
- SVdP Currently has access to an open line of credit on its building, located at 5671 Redwood Drive, in Rohnert Park, of \$2,500,000.

2. SVdP has agreed to an additional 10% construction contingency beyond the 15% already baked into the construction budget.

- SVdP will deposit \$644,924 into a capital reserve to serve as an additional financial cushion.
- SVdP can also request that the \$671,215 in operating subsidy be reallocated to construction.
- Total funding available for construction at the outset: \$7,094,158.

3. SVdP has agreed to pull money out-of-pocket to fund the operational account up to one year in advance, for the full term of 15 years, to ensure ongoing funding for operations, and we do not hit a fiscal cliff.

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4. SVdP will agree to be monitored by the City. City shall have the right to request a dated bank statement so that the City can transparently see available cash on hand and the rate of cash burn, at any time.

5. SVdP has agreed to fund a consultant to participate in project management, project monitoring, and legal support.

# Annual Operating Expense

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Projected Annual Expenses: \$274,367

This funds:

- Resident Manager
- Case Managers
- Utilities
- Administrative Overhead
- Insurance

\*According to Mark Krug, Sebastopol's consultant hired to evaluate the project, this was a sufficient operating budget and on par with industry standards.

# Operational Income

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## Operational Funding can be sourced from four areas:

1. Housing Choice Vouchers through a special dispensation from HUD.
  - Consultant found this to be valid and verified SVdP's "innovative" special dispensation.
  
2. Project-based Vouchers.
  - Consultant recommends pursuing PBV's utilizing the payment standard, which would increase annual rent income to \$472k. Consultant asserts that the County is going to add "several hundred" PBV's to the pool in the coming years. Consultant felt that the probability of being awarded a PBV contract through a countywide NOFA was "likely."
  
3. HUD PSH Funding.
  - SVdP has experience with this funding source and uses it for the Santa Rosa Commons.
  
4. Private philanthropy.
  - SVDP has extensive experience securing donor dollars and routinely raises more than \$400,000 each year from private sources. During large capital campaigns, SVDP has raised in excess of \$1,000,000 from private sources.

# Operational Funding Continued...

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## 5. Proposition 1 Funding.

- Recently passed, Proposition 1 will provide funding for mental health and permanent supportive housing projects.

## 6. SVDP's unrelated business income.

- SVDP generates between \$60,000 and \$125,000 net profits annually from its thrift store operations.

## 7. HCD Operating Subsidy

- HCD has awarded \$671,215 in the form of an operating subsidy to support operations.



# SVdP's Construction Budget Breakdown

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Plumbing: \$102,659.42

Civil – Water, Sewer, Paving, Sidewalks, ADA: \$863,233.44

Carpentry: \$2,945,376.74

Electrical: \$740,382.85

Mechanical – HVAC: \$201,768.22

Fire Code Compliance: \$390,358.42

**Total Construction Hard Cost: \$6,030,345.**

Per Unit Hard Cost: \$274,106

*\*Consultant flagged this as low, and suggests that project actuals will be between \$500,000 and \$600,000, based on area comparables.*

# Divergent Opinions on Construction Costs

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SVdP disagrees with the consultants findings that each unit will cost between \$500,000 and \$600,000 per unit for the following reasons:

1. This area average includes acquisition costs. This is not a factor when evaluating a project's construction costs, because SVdP already owns the land. It is true that when we include the acquisition cost (\$950,000), and the already-invested predevelopment expenses (architectural designs, engineering, etc.), SVDP's per unit cost increases to over \$450,000 per unit – much closer to the area average and the Consultant's findings.

# Other Factors

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Driving this average price per unit in the County are the salaries, wages, benefits, and overhead of large affordable housing developers like Burbank, MidPen Housing, EAH, and others, where executives, directors, legal, compliance, accounting, etc. all have their salaries applied to the per unit cost. Many of these large development organizations pay salaries of \$250,000 to \$400,000 for CEO's; \$180,000 to \$240,000 for Directors, et cetera. This alone can add \$25,000 to \$35,000 to the cost of each unit. At SVdP, we only have small portions of two salaries applied: the Executive Director and the Finance Manager. Roughly \$85,000 will be applied to this project in administrative overhead for these two positions. The rest of these salaries get sourced from other program areas SVdP is engaged in.

# Size Matters!

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When discussing the average cost to construct a unit, it is important that most affordable housing projects being built are 2 and 3-bedroom units, which require more labor and materials than a Junior 1-bedroom, which is what we will be building at the Gravenstein Commons. All 22 units will be Junior 1-bedroom units, totaling 408 square-feet each.

A conventional 2-bedroom and 3-bedroom apartment in Sonoma County ranges from 950 square feet to 1,300 square feet. If the average cost per unit to build one of these is \$550,000, per the Consultant, then it would logically follow that a 408 square-foot unit would be substantially cheaper.

**Cost Per Unit at the Santa Rosa Commons (Construction Only):**

**\$242,910.68**

Santa Rosa Commons	Gravenstein Commons
Electrical: All electrical service was removed and replaced.	Comparable
Plumbing: All plumbing was removed and replaced, complete with new sinks, showers, and toilets.	Comparable
Civil: All civil was redone. New water and sewer laterals were installed and connected to Main, new paving and asphalt (parking lot), ADA sidewalks installed, swales for water runoff.	Comparable
HVAC: New HVAC throughout, complete with new self-shutoff ventilation, heating, cooling.	Comparable
Fire Code Compliance: fire suppression installed, risers, and sized up piping to meet code.	Comparable
Interior Finishes: new paint, epoxy floors for durability, countertops, and furnishings from SVdP wholesalers.	Comparable
Exterior Finishes: New windows and doors to meet CalGreen requirements, exterior paint.	Comparable
Roofing: Elevated shed roof built with the installation of new wood trusses, and roofing.	Comparable
5% ADA: 5% of rooms were augmented to meet ADA requirements.	Comparable
Demolition: 80% of property was demolished and removed. Only the foundation, floor, and walls remained.	Incomparable: No Demolition Expense
Abatement: Lead and Asbestos removed	Incomparable: No Abatement Expense
Incomparable: Walls were retained	Framing: Walls will need to be constructed
Impact Fees (Total): \$509,079.62	Impact Fees (Total): \$425,000 (Per Svanstrom)

**Cost Per Unit at the Gravenstein Commons (Construction Only):**

**\$274,454.55**

*If we reallocate the Operating Subsidy and add in the additional 10% Contingency, CPU can go as high as \$322,461.72*

# Only Material Difference Between the Two:

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The Santa Rosa Commons was a full remodel where everything was removed, except for the concrete walls and floors. EVERYTHING else was replaced. Because it was a renovation, there were other expenses that will not be present for the Gravenstein project. Namely, demolition and hazardous waste removal expenses. Similarly, there were unforeseen expenses associated with tearing down an old building and renovating it, such as our \$183,000 lead and asbestos discovery, which will not be a factor in new construction like we will be doing at the Sebastopol site.

**The only material difference between the two projects is the foundation and carpentry (framing),** but we are budgeting \$2.95 million for this aspect of the project, which we believe to be accurate and sufficient.



# Other Issues the Report Flagged:

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Lack of accounting for “soft costs,” such as engineering, architectural, and project administration.

- We did not account for this fully, because we have already paid out-of-pocket for most of the architectural and engineering expenses. Yes, there will be added expenses for design modifications and RFI's on a rolling basis throughout the project, but this will be less than \$200,000, which we deem di minimis. It is not a cost that will have a consequential effect on the project. We have intentionally distilled down the project budget to construction hard costs for clarity.

# Other Issues Continued...

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Necessity for a security gate and/or security to ensure ongoing resident privacy and safety.

- In agreement with the Consultant, we will utilize security for eight hours per day, for the first six months of the project, to provide enhanced security for the residents, but as the community settles in and stabilizes, we will reduce security until it is no longer needed. As for the gate, we plan to do a separate fundraising campaign to fund the gate's installation once the entire construction aspect of the project has concluded. This is the same approach we have employed for the Santa Rosa Commons.

# Gravensteins-to-Gravensteins

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In the consultant's report, he believes a fair, all-in, per unit estimate is \$550,000. He further states that it is "feasible" to achieve \$485,000 per unit. These numbers factor the total expense of a project. These include:

- Acquisition
- Studies (e.g. NEPA/CEQA)
- Engineering & Design
- Developer Overhead & Project Administration
- Consultants (e.g. Prevailing Wage Compliance)
- Construction Hard Costs
- Impact Fees
- Lease Up & Marketing

# Comparing SVdP's Projection to Consultants:

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\$950,000 -- Land Acquisition (EXPENDED)

\$400,000 – NEPA, grading, electrical upgrade, developer overhead, architectural design (EXPENDED).

\$5,778,020 – HCD Grant Award for Construction

\$644,923.50 – SVDP's ADDITIONAL 10% Construction Contingency (this is in addition to the 15% already factored into the construction hard cost budget)

\$671,215 – HCD Operating Subsidy that could be made available for conversion from operating to construction.

**TOTAL Funding Available on Day One of Construction: \$7,094,158.50**

**Total Per Unit Cost: \$322,461**

# Additional Backstop

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Additional Financial Backstop: \$2,500,000 (SVdP's Untapped Line of Credit on 5671 Redwood Drive in Rohnert Park)

**Total Funding Available: \$10,994,158.50**

**Total Per Unit Cost: \$499,734**

# Other SVdP Assets

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845 N. Gravenstein Highway N (Sebastopol)

- Appraised for \$1,038,000 in 2023

610 Wilson Street (Santa Rosa)

- Appraised for \$1.3M in 2019

352 Major Drive (Santa Rosa)

- Estimated Appraisal of \$840,000 in 2024

5671 Redwood Drive (Rohnert Park)

Appraised for \$5,085,000 in 2024

2400 Mendocino Avenue (Santa Rosa)

Estimated Appraisal of \$15.5M in 2024

Total: \$23,763,000

# Concluding Remarks

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SVdP is a capable entity that has experience doing large multifamily housing, and has over 8 years' combined experience operating permanent supportive housing programs.

Our Director of Housing is a California-licensed Property Manager and is well-versed in Housing and Tenant Law. We are also supported by two law firms – one with deep experience in housing relocation, and the other in evictions.

SVdP has over \$23,000,000 in real estate assets, between five separate properties.



# Concluding Remarks Continued...

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SVdP has an annual budget of \$2,431,100, which can be adjusted to absorb unforeseen expenses.

SVdP has deep experience working with donors to achieve the organization's objectives. We typically raise between \$400,000 and \$1,200,000 on an annual basis, depending on the cause/campaign.

SVdP is committing an additional 10% construction contingency to ensure project completion, on top of the 15% already baked into the construction budgeted, as reflected in the \$6,038,000 total.

# Concluding Remarks Continued...

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SVdP is also going to deposit funds in advance of every operating year into the project's operating account – for fifteen years – so that the City of Sebastopol can be sure the project remains funded.

SVdP is going to pay, without limit, for Sebastopol to utilize Craig Meltzner and Associates to serve as project management and monitoring on the City's behalf, for up to 15 years. Meltzner and Associates was recommended by the Consultant.

SVdP has an open a line of credit on its property, located at 5671 Redwood Drive, in Rohnert Park, which can be drawn upon, should the need arise.

SVdP is going to sign an affidavit to provide legally-binding assurance that SVdP shall act as the entity in first position to cover any financial shortfalls associated with refunding the grant.

# Concluding Remarks Continued...

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Although both SVdP and the City of Sebastopol are technically liable for the project and, in a worst case scenario, the grant award *could* be called back if we failed to perform, we must remember that the state **wants** us to succeed.

As a result, they are **very, very** flexible, and that has been a common experience among all PSH housing developers in the County who have requested budget amendments, extensions, et cetera. They grant extension requests, upon request, so long as progress is being made.

This is not an onerous or risky proposition. A distinction in your mind should be made between HCD (a government partner), and a commercial bank. Focus on failure too much, as opposed to problem solving and transparent communication with our partner, will result in us never giving this project a chance. We have come to focus too much on the very remote “what if” scenario of what would happen if we failed. Important, to be sure, but the framing should focus on how would we overcome said scenario... We have many options and opportunities available to us.

To quote the City’s Consultant in his concluding remarks in his report:

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*“Pushed by gubernatorial pressure, HCD is very aggressive in establishing new PSH projects and more globally, resolving homelessness is now a significant part of HCD’s mission and operations. Given they are mission driven and not a commercial bank, responses to defaults or potential defaults can reasonably be expected to take the form of problem-solving rather than punishment or clawing back funding. Simply stated, HCD has a very strong incentive to succeed with Homekey and similar initiatives. Thus, if Gravenstein Commons is at risk of financial collapse at some future date, HCD would in all likelihood look to our local community to explore options to resolve rather than simply seeking to demand a return of funds. Perhaps that takes the form of a new operator. Or, perhaps, retooling the population to be served. Whatever the particulars are, it is reasonably foreseeable that HCD would work with Sebastopol, SVdP and the greater community to find a way to keep Gravenstein Commons operational by approving whatever set of changes the stakeholder collectively agree are necessary.”*

## ATTACHMENT 4

# SVdP's Commitment

There are two points of financial risk to the project:

- 1.) A potential operational shortfall of \$50,700 per year and;
- 2.) And the potential for construction cost overruns.

### **Mitigating Operational Shortfalls**

Guaranteed sources of income to support operations:

- A one-time, lump sum operating subsidy payment of \$671,215 from the California Department of Housing and Community Development (HCD).

To further mitigate operational shortfalls, SVDP has access to the following possible funding sources to supplement the guaranteed sources of funding:

- Housing Choice Voucher income of \$178,920 per year, which could increase to \$456,554 if Project-based vouchers (PBV's) can be obtained. According to Sebastopol's hired consultant, Mark Krug, the County is expected to make several hundred more PBV's available by reassigning current Housing Choice Vouchers to Project-based Vouchers.
- HUD PSH funding opportunities at the Continuum of Care
- Unrestricted income from other rental housing owned and operated by SVDP
- Unrestricted income from thrift store sales
- Private donor support for the Gravenstein Commons
- Lines of credit on over \$23,000,000 in owned real property
- Proposition 1 Funding

Current projections in SVDP's pro forma show an operational deficit of \$50,700 per year at the Gravenstein Commons. This assumes that SVDP would be unable to obtain public support, such as HUD PSH funds, PBV's, and/or private donor support. If SVDP obtains HUD PSH funding, the project is projected to earn a net income of \$126,019 per year. If both PBV's and HUD PSH funding can be obtained, the project will net over \$300,000 per year ensuring very favorable operational stability.

**Currently, SVDP's audited financials do show the ability to cover this shortfall using other funds available to the organization.**

To guarantee ongoing operational funding, SVDP's Board President and Vice President have authorized Executive Director, Jack Tibbetts, to commit funding – in contract - to an operating fund one year in advance, for the full fifteen years.

Using HCD's initial operating subsidy as the seed capital for this operating fund, SVDP will deposit the \$671,215 operating subsidy into an account the City of Sebastopol will have oversight of.

At the end of the first operating year, SVDP will assess what its operational deficit/net income is when accounting for the operational subsidy and the voucher income.

HCD's operating subsidy, when applied across the fifteen-year timeline, equals \$44,748 per year in annual subsidy. Combined with the anticipated annual voucher income of \$178,920, the total annual income is projected to be, at minimum, \$223,668.

Annual operating expenses are projected to be \$274,368, leaving a true operating deficit - across 15 years - of \$50,700 per year. *Again, this assumes SVDP receives no HUD PSH support, no private philanthropic support, and is unable to secure project-based vouchers.* According to Mark Krug's report, the likelihood of being able to obtain PBV's is "likely."

At the end of year one, SVDP will submit its year-end budget actuals to the City of Sebastopol to determine its true operating deficit/income. Whatever the true operating deficit is, accounting for voucher income and the operating subsidy (the only two guaranteed funding streams at this time), SVDP will furnish that amount out-of-pocket, and deposit the funds into the oversight account, so that Sebastopol can verify the funds for the next operating year are present. In the years there is a net gain, no funds will be added to the oversight account.

This means that, should SVDP have an actual \$50,700 operating deficit at the end of year one, SVDP will be required to furnish \$50,700, plus 3% to account for inflation, and deposit it into the operating oversight account to adequately fund the subsequent operating year. This will ensure ongoing fiscal solvency on a year-over-year basis, with funds deposited in advance to cover anticipated losses.

### **Mitigating Construction Cost Overruns**

To mitigate the possibility of construction cost overruns, SVDP can draw upon the following:

- While this money is held and slowly being released for construction, it sits in an account with Poppy Bank, earning interest at a rate of 3% annually. It is likely that after an 18-month construction period, this deposit will earn between \$100,000 and \$140,000 in interest, depending on the rate at which funds get released to the contractor for work performed.
- SVDP has a line of credit of up to \$2,500,000 on its three-acre office complex, warehouse, and retail store, located at 5671 Redwood Drive, in Rohnert Park, California.

- SVDP also possess a property that is valued at roughly \$15,000,000, located at 2400 Mendocino Avenue, in Santa Rosa, California, and could apply to draw funds from this project, if needed.
- Finally, SVDP currently has \$440,000 in cash-on-hand, and \$554,299 in accounts receivable (as of 2/28/2024).

A 10% cost overrun contingency on the total construction cost of \$6,030,045 would be \$644,900, (see construction budget attached). This would be in addition to the 15% cost contingency already baked into our construction budget, bringing the total contingency to 25%. The normal construction cost contingency for construction projects is 15%, so this would be an unusually high contingency.

Specifically, SVDP will commit to the following:

- 1.) During the construction phase, from groundbreaking to being issued a certificate of occupancy, maintain access to \$644,900 in cash-on-hand, which will be held in the oversight account, which the City of Sebastopol can view at any time.
- 2.) Once construction is complete, and the building is occupied, SVDP will deposit the HCD operating subsidy into the oversight account that the City of Sebastopol will have continued oversight of. At the end of year one, SVDP will review its budget actuals and determine what the true operating deficit is, when accounting for income offsets from voucher income and the operating subsidy, amortized across the 15-year period. Whatever that deficit is (it is currently projected to be \$50,700), is what SVDP will deposit into the operating account, plus 3% to account for inflation, IN ADVANCE of the upcoming operating year. This will ensure there is adequate capital to operate on a year-over-year basis.
- 3.) SVdP will also reimburse the City of Sebastopol for all of its costs to hire and retain Craig Meltzner and Associates to ensure ongoing project management, monitoring, and reporting, for the full fifteen years of the project, or until HCD releases the City of its obligations, whichever is first.



# DRAFT ELEMENTS OF Project Agreement

## ATTACHMENT 5

For the Construction and Operation of the “Gravenstein Commons,” located at 850 N Gravenstein Highway by and between The City of Sebastopol and The Society of St. Vincent de Paul District Council of Sonoma, Inc.

### 1. Background

On May 16th, 2023, The City of Sebastopol (“City”) directed staff to jointly apply for funding from the California Department of Housing and Community Development (HCD), along with the Society of St. Vincent de Paul District Council of Sonoma, Incorporated (SVdP), to construct twenty-two, deed-restricted, extremely low-income housing to ameliorate homelessness within the city by passing Council Resolution 6533-2023. The initiative was a direct response to the explosion of houseless people living on Morris Street and the surrounding area. The City then began working with service providers to temporarily relocate the homeless to 850 N Gravenstein Highway. This safe parking site was intended to be temporary and serve as a stopgap until SVdP could construct permanent supportive housing at the location. In support of that goal, the City jointly-applied for \$6,449,235 to construct the units and, on February 26th, the City and SVdP were awarded the funds.

On March 19th, 2024, Sebastopol City Manager, Don Schwartz, brought this contract to the Council to affirm the City’s willingness to continue forward with the project as a joint-applicant and assume all of the liabilities therein. This contract was prepared by Jack Tibbetts, Executive Director of the Society of St. Vincent de Paul District council of Sonoma, Inc., and represents the nonprofit organization’s warranties to the City, and financial obligations, for the life of the project.

### 2. Parties

The City of Sebastopol (“The City”) is a city located in Sonoma County, California.

The Society of St. Vincent de Paul District Council of Sonoma, Incorporated (“SVdP”) is a nonprofit organization that serves Sonoma County, Mendocino County, and Lake County. The organization has a budget of \$3.2 million per year, and an asset value of over \$15 million. The organization has been in existence since 1963 in Sonoma County, and its mission is to “end poverty, one person, and one family, at a time.”

### 3. Purpose

The parties do hereby enter into an agreement (“Agreement”) regarding the 22-unit development, located at 850 N Gravenstein Highway, in Sebastopol, California, and the joint partnership governed by California Department of Housing and Community Development’s Standard Agreement. This contractual agreement shall bind the parties for the entire term of this project, or until said parties submit a mutually-executed amendment.

### 4. Term

The term of this agreement shall commence when both parties dually-execute this contract, and the contract shall not terminate before the full 15-year period the California Department of Housing and Community Development (HCD) will hold the parties liable for any breach of contract to the Standard Agreement. This contract can only be voided through mutual agreement, or through a cancellation of the Standard Agreement. Once the 15-year timeline is complete, and the Standard Agreement expires, the parties no longer share any liability in the project, the Standard Agreement will be null and void and, as a result, so will this agreement.

### 5. City of Sebastopol’s Responsibilities

5.a. The City of Sebastopol shall execute the Standard Agreement and subject itself to any and all financial liability associated with a breach of contract to said Standard Agreement. In the event of a breach of contract, the City of Sebastopol could be liable for up to \$6,449,235 - the total amount of the grant funds awarded - but the City also understands that SVdP shall be in first position to refund the grant in the event of a breach of contract.

5.b. The City of Sebastopol shall make reasonable efforts to expedite the planning and permitting process so that the parties have every opportunity to reach completed milestones, as required by HCD's Standard Agreement.

## **6. SVdP's Responsibilities**

6.a. SVdP shall always be the primary party "in first position" responsible for repaying any fees, damages, or refunds associated with the project.

6.b. SVdP agrees to indemnify the City of Sebastopol for any financial liability associated with the project the City could incur as the result of a breach of contract.

6.c. To sufficiently guard against financial default during the construction phase of the project (construction phase shall be defined as from the time of execution of the Standard Agreement until the City issues a certificate of occupancy), SVdP shall maintain a capital reserve, or line of credit, of \$671,215, which shall serve as a project contingency to cover any construction cost overruns.

6.d. To ensure ongoing operational capacity for the full 15-year term of the project, SVdP agrees to immediately deposit \$671,215 (the operating subsidy) into an operating account, which the City will be able to monitor at any time. At the end of the first operating year, SVdP shall determine the year-end budget actuals and any deficit that may have been incurred. Whatever said deficit amount is, SVdP will pull from its unrestricted, general operations account, and deposit into the project's operating account to pay for the subsequent operating year. Once complete, SVdP shall submit to the City a copy of the budget, budget actuals, and despot slip to cover the subsequent year's operating loss. This process shall be repeated every year, for 15 years, or until the Standard Agreement becomes void.

6.e. To help offset costs for the City of Sebastopol, SVdP agrees to fund contract staff support for the City to assist with project management, reporting, compliance, and development of the Regulatory Agreement for the 15-year life of the project.

## **7. General Provisions**

### **I. Entire Agreement**

The agreement constitutes the entire agreement between the Parties. The agreement may only be amended by mutual consent in the form of a dually-executed amendment to this agreement. No failure or delay of either party in exercising any right or remedy hereunder shall operate as a waiver thereof; any such waiver shall be valid if set forth in writing by such party.

### **II. Notice**

All notices and other communication hereunder shall be in writing and delivered to the addresses set forth on the signature page.

### **III. California Law**

The Agreement and all disputes or controversies arising out of, or relating to, the Agreement or contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of California.

**IV. Non-assignment**

Neither the Agreement, nor any of the rights, interests or obligations thereunder, may be assigned, in whole or in part, by operation of law or otherwise, by either party without the prior written consent of the other party. The Agreement will be binding upon the Parties and their respective successors and assigns.

**V. Non-severability**

If any provision or portion of this Agreement is held to be invalid, illegal or unenforceable in any respect, under any applicable law, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

**Signed:**

By \_\_\_\_\_

Name: Don Schwartz  
City Manager, City of Sebastopol

Date: \_\_\_\_\_

By \_\_\_\_\_

Name: Jack Tibbetts  
Executive Director, SVdP

Date: \_\_\_\_\_



**ATTACHMENT 6**

RESOLUTION NUMBER: -2024  
(CORRECTING RESOLUTION NUMBER 6533-2023)

CITY OF SEBASTOPOL

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SEBASTOPOL AUTHORIZING A JOINT APPLICATION WITH ST VINCENT DE PAUL FOR A PROJECT HOMEKEY GRANT APPLICATION FOR 845 GRAVENSTEIN HIGHWAY NORTH AND FINDING THE PROJECT EXEMPT UNDER CEQA SECTION 15332, CLASS 32

WHEREAS, the City Council held a duly noticed public meeting to consider the item on May 16, 2023, and heard public comment, and adopted Resolution 6533-2023 authorizing certain actions related to Project Homekey application by the City of Sebastopol ("City") and St Vincent de Paul ("Co-Applicant"); and,

WHEREAS, the Department of Housing and Community Development notified the City of certain amendments required to the language in Resolution 6533-2023, which authorized the application for Project Homekey Round 3 funding; and,

WHEREAS, these corrections include the following:

1. Paragraph 3 of Resolution 6533-2023 , incorrectly states the date of the Project Homekey Round 3 Notice of Funding Availability (NOFA) as September 9, 2021, and
2. Paragraph 3 of Resolution Number 6533-2023 incorrectly omits the reference to "Round 3" of Project Homekey, and
3. Paragraph 4 of Resolution Number 6533-2023 omits the reference to the City of Sebastopol as "City" for future references, and identifies St Vincent de Paul as "Corporation" but omits the identification of St Vincent de Paul as "Co-Applicant", as required by the California Department of Housing and Community Development ("HCD"); and
4. Adopted Item 4 of Resolution Number 6533-2023 incorrectly identifies the City Manager as the authorized signatory for documents related to the Project Homekey program; and
5. Adopted Item 4 of Resolution Number 6533-2023 did not identify City Manager as an authorized applicant, as required by HCD regulations. And,

WHEREAS, the City Council held a duly noticed public meeting to consider the item on April 2, 2024 to correct certain terms of said Resolution 6533-2023, and heard public comment.

NOW THEREFORE BE IT RESOLVED, that the City of Sebastopol City Council based on the foregoing finds and determines it advisable to amend Resolution 6533-2023 to correctly state the above amendments as follows:

1. Paragraph 3 of Resolution 6533-2023, is hereby amended to specify Project Homekey Round 3 Notice of Funding Availability (NOFA) of March 29, 2023; and
2. Paragraph 3 of Resolution Number 6533-2023 is hereby amended to add the reference to "Round 3" of Project Homekey, and
3. Paragraph 4 of Resolution Number 6533-2023 is hereby amended to add the reference to the City of Sebastopol as "City" for future references, and identify St Vincent de Paul as "Co-Applicant", as required by the California Department of Housing and Community Development ("HCD"), and

amends references throughout the Resolution to identify the City and Co-Applicant as such; and

4. Adopted Item 4 of Resolution Number 6533-2023 is hereby amended to identify the Mayor as the authorized signatory for documents related to the Project Homekey program; and
5. Adopted Item 4 of Resolution Number 6533-2023 is hereby amended to add the City Manager as an authorized applicant in addition to the Planning Director, as required by HCD regulations.

BE IT FURTHER RESOLVED, that the City of Sebastopol City Council based on the foregoing, the City Council of the City of hereby adopts the Corrected Resolution 6533-2023 to read as follows, with new language underlined:

WHEREAS, the City of Sebastopol completed a comprehensive General Plan update with adoption of a new General Plan on November 15, 2016, and adopted an Updated Housing Element on January 3, 2023; and

WHEREAS, pursuant to the California Environmental Quality Act (CEQA, codified at Public Resources Code § 21000 *et seq.*) and the State CEQA Guidelines (14 CCR, § 15000 *et seq.*), on November 15, 2016, the City Council certified and adopted an Environmental Impact Report (EIR) for the Sebastopol General Plan (the “Project”; State Clearinghouse No. 2016032001); and

WHEREAS, The Department of Housing and Community Development (“Department”) has issued a Notice of Funding Availability, dated March 29, 2023 (“NOFA”), for the Homekey Program “Round 3” (“Homekey” or “Program”). The Department has issued the NOFA for Homekey grant funds pursuant to Health and Safety Code section 50675.1.3 (Assem. Bill No. 140 (2021-2022 Reg. Sess.), § 20.); And,

WHEREAS, the City of Sebastopol, a Municipal Corporation (“City”) desires to jointly apply for Homekey grant funds with The Society of St. Vincent de Paul District Council of Sonoma, Incorporated (“Corporation” and “Co-Applicant”). Therefore, Co-Applicant is joining the City in the submittal of an application for Homekey funds (“Application”) to the Department for review and consideration.; And,

WHEREAS, The Department is authorized to administer Homekey pursuant to the Multifamily Housing Program (Chapter 6.7 (commencing with Section 50675) of Part 2 of Division 31 of the Health and Safety Code). Homekey funding allocations are subject to the terms and conditions of the NOFA, the Application, the Department-approved STD 213, Standard Agreement (“Standard Agreement”), and all other legal requirements of the Homekey Program.; And,

WHEREAS, St Vincent de Paul District Council of Sonoma County, Incorporated, a 501(c)3 non-profit organization (the “Co-Applicant”), has approached the City of Sebastopol with a request to jointly apply for State of California Housing and Community Development Grant funding under the Project Homekey, Round 3 grant program; and,

WHEREAS, St Vincent de Paul proposes to apply for Project Homekey Round 3 funding to construct twenty-two (22) to construct twenty-two units of extremely low-income housing at 845 Gravenstein Highway; and

WHEREAS, St Vincent de Paul will be responsible for the construction and operation of the Project, including all costs associated with City staff assistance, the physical development and on-going operations; and

WHEREAS, this grant program requires a Public Entity to be an applicant jointly with a non-profit organization to be eligible for the funding; and

WHEREAS, the Project is also consistent with the CG: General Commercial District and applicable development standards of the Zoning Ordinance, in that permanent affordable housing is permitted in the CG: General Commercial District, and will comply with the applicable development standards.; And,

WHEREAS, the Project is consistent with the General Plan Land Use designation of the General Commercial in that it involves construction of affordable housing adjacent to other residential uses. The Project is further consistent with the following General Plan Goals, Policies and Actions:

Policy A-3 Encourage a variety of housing types such as multi-family units, mixed use housing, ADU and JADUs, single-family attached (townhouses), and other typologies that make housing more affordable.

Policy A-4 Promote the development of new housing units affordable to extremely low, very low-, low-, and moderate-income households and housing units that are affordable to and appropriate for special needs households, including seniors, extremely low-income households, disabled persons, developmentally disabled persons, farmworkers, large families, and persons experiencing homelessness.

Policy D-1 To ensure all residents have access to adequate housing, the City will work to promote and affirmatively further fair housing opportunities throughout the community for all persons regardless of age, race, gender, sexual orientation, marital or familial status, ethnic background, disability, medical condition, or characteristics protected by the California Fair Employment and Housing Act, and any other State and Federal fair housing and planning law.

Policy D-2 The City will encourage long-term and permanent affordability of lower and moderate-income and special needs housing.

Policy D-3 The City will continue to educate the community about fair and affordable housing.

Policy D-4 The City will continue efforts to improve housing opportunities for special needs households, including seniors, disabled persons, developmentally disabled persons, extremely low-income households, farmworkers, large families, and persons experiencing homelessness.; And,

WHEREAS, the Proposed Project to construct affordable housing at 845 Gravenstein Highway North is consistent with the following City Council Goals:

Goal 5: Provide Open and Responsive Municipal Government Leadership

5.3.3. Encourage and increase public awareness of City Policies, decisions, programs and all public processes and meetings, by investigating effective methods of communication and obtaining feedback from the community.; And,

WHEREAS, the construction of 22 units of permanent affordable housing at 845 Gravenstein Highway North is categorically exempt from the requirements of the California Environmental Quality Act, pursuant to Section 15332, Class 32, in that it complies with the General Plan land use designation of General Commercial and the applicable goals and policies of the Land Use Element and Community Identity Element, as contained in this staff report and the proposed Resolution.

The project is also consistent with the CG: General Commercial District and applicable development standards of the Zoning Ordinance, in that permanent affordable housing is permitted in the CG: General Commercial District. Furthermore, the lot is substantially less than five (5) acres; located within City limits; generally surrounded by urban uses; and does not have any identified endangered or rare species. Finally, the site is in an urbanized area, which can be served by required utilities and public services, and the project would not result in significant traffic, noise, air quality, or water quality impacts in that it only involves one modest-sized building, and both traffic and air quality studies determined that the project would not create any significant impacts; utility service can be readily provided; and the project is subject to standard requirements to protect water quality.

WHEREAS, the City Council held a duly noticed public meeting to consider the item on May 16, 2023, and heard public comment.

BE IT FURTHER RESOLVED, that the City of Sebastopol City Council based on the foregoing, the City Council of the City of hereby further re-affirms the following adopted actions of Resolution 6533-2023:

1. Co-Applicant is hereby authorized and directed to submit a joint Application to the Department in response to the NOFA, and to jointly apply for Homekey grant funds in a total amount not to exceed \$15 million.
2. If the Application is approved, Co-Applicant is hereby authorized and directed to enter into, execute, and deliver a Standard Agreement in a total amount not to exceed \$22 million, any and all other documents required or deemed necessary or appropriate to secure the Homekey funds from the Department and to participate in the Homekey Program, and all amendments thereto (collectively, the "Homekey Documents").
3. Co-Applicant acknowledges and agrees that it shall be subject to the terms and conditions specified in the Standard Agreement, and that the NOFA and Application will be incorporated in the Standard Agreement by reference and made a part thereof. Any and all activities, expenditures, information, and timelines represented in the Application are enforceable through the Standard Agreement. Funds are to be used for the allowable expenditures and activities identified in the Standard Agreement.
4. The Mayor of the City of Sebastopol is hereby authorized to execute any documents related to Project Homekey Documents on behalf of the City for participation in the Homekey Program, and the City Manager or Planning Director of the City of Sebastopol, is hereby authorized to submit, individually, grant Application documents.



This resolution supplements, amends, and corrects the original resolution No. 65323-2023 only to the extent necessary to correctly state the above corrections and except to the extent specifically amended by this Resolution, the original resolution 6533-2023 shall remain in full force and effect.

The above and foregoing Resolution was duly passed, approved, and adopted at a meeting by the City Council on the 2<sup>nd</sup> day of April 2024.

**VOTE:**

Ayes:

Noes:

Abstain:

Absent:

APPROVED: \_\_\_\_\_  
Mayor Diana Gardner Rich

ATTEST: \_\_\_\_\_  
Mary Gourley, Assistant City Manager/City Clerk, MMC

APPROVED AS TO FORM: \_\_\_\_\_  
Larry McLaughlin, City Attorney