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**City of Sebastopol**

April 1, 2024

To: Sebastopol City Council

From: Don Schwartz, City Manager

Re: Supplemental Information Regarding Gravenstein Commons Agenda Report for April 2, 2024 Council Meeting

Since finalizing the Agenda Report on Gravenstein Commons there have been several developments which I would like to bring to your attention. These include:

1. A recognition of an oversight on my part in the Agenda Report re: a recommendation.
  2. The attached message from Tina Rivera, the Director of Health Services for the County.
  3. Conflicting information on the size of the capital funding gap.
  4. New information regarding the planned third-party expert to work on behalf of and at the direction of the City to assist us with the project, should you decide to move forward.
  5. Better information on the status and need for work on other priorities.
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1. While the Recommended Action section of the staff report includes a recommendation to withdraw the City from participating in this project, the Options section does not include a recommendation. This is an oversight. I recommend that we withdraw from the project. Mr. Krug recommends that the project not proceed until the development project has been resubmitted and assessed and that sufficient and compatible funding sources are committed.

This would delay the project. The urgency of action and timing requirements on the Homekey project is unclear. For example, at one point SVdP indicated that the 'clock' for construction started in late February; more recently they indicated that it started last week. SVdP and Mr. Krug have indicated that the state has been supportive and flexible with Homekey projects, and the state may be willing to extend their deadlines so long as they feel sufficient progress is being made. Yet the state has also indicated that time is of the essence and that they expect final City approval in May. Mr. Krug has also noted that the degree of shifts in this project's funding since the initial application are extreme, which creates additional uncertainty about how the state will respond to the changes.

2. The attached message from Tina Rivera indicates that her Department has \$3 million in Housing Homeless Assistance Program funding that would create a financial safeguard for the project in the event of unforeseen loss or cost overruns. This is encouraging as a potential financial backstop should the need arise. In further communication with her I have learned that this funding is subject to approval by the Board of Supervisors. Thus,

while there is a good chance that the funding would be available, I would not recommend considering this an assured funding source. This is consistent with the recommendation on page 1 in Mark Krug's report that we not 'greenlight' the project until funds are committed. He concurs with the approach of not counting on those funds at this point.

3. **Conflicting information on the size of the capital funding gap:** The agenda report notes a funding gap of \$3.6 million in capital funding. I have been in touch with SVdP and Mr. Krug, and there is some disagreement about that number. I hope to have that reconciled before the City Council meeting.
4. **Third Party Expert:** After posting the agenda item, we learned that the anticipated third-party expert to take the lead on the City's responsibilities should you decide to proceed with the project has a conflict of interest and is ineligible to take on this role.

SVdP is looking for other options should you decide to proceed with the project. I would want someone with considerable expertise in affordable housing, including experience with Homekey projects given the complexity of Homekey requirements. As of this writing SVdP has identified potential candidates for this role. They have not confirmed their interest or availability. Staff should review the qualifications of potential candidates before determining if they are qualified.

5. **Other City Priorities:** After reviewing more closely the status of other issues we are working on I would like to request Council direction on priorities should you decide to proceed with this project. The analysis of the project thus far has required considerable time. This is due in part to the complexity of Homekey as well as changing information from SVdP. While hiring an outside expert would help, continuing will require significant additional time that would otherwise go to efforts including:
  - a. Preparation of the FY 24-25 budget.
  - b. Negotiations with employee groups regarding new agreements.
  - c. Completion of analysis of potential consolidation of the Fire Department with another agency, and follow up actions should the Council decide to consolidate.
  - d. Completion of the analysis of water and sewer rates.
  - e. Hiring and/or on-boarding of two new Department Heads (Fire and Planning)

Below are more complete recommendations regarding next steps should you decide to proceed with the project:

- a. Approving the resolution included with the Agenda report to correct items from the May, 2023 resolution you adopted when approving the City's application for the project.
- b. Informing the state that there have been substantial changes to the project, including capital funding, operating funding, and plans for placement of residents at the project (note that the state is already aware of changes to the relocation plan submitted with the project to allow placement of five former Horizon Shine occupants; we have not yet heard if this change is acceptable).

- c. Selecting a candidate to serve as the City's expert on the project, should SVdP find suitable applicants.
- d. Negotiating the scope of work for the expert.
- e. Negotiating an agreement with SVdP to pay for all of the City's legal and administrative costs, including the expert.
- f. Bring this agreement with SVdP to the Council for approval.
- g. Directing the third party expert to review all Homekey documents and timing requirements, discussing them with SVdP and myself or other City staff, and submitting any required documents to the state.

These documents include a signed Project Report from SVdP and the City. That report reflects the prior but not current plan. The state has requested the prompt return of this Report. We are not comfortable signing a document that is out of date and without review by a Homekey expert who can thoroughly investigate and explain the changes in funding. Staff do not intend to return this document until this review has occurred.

These steps will require a considerable investment of staff time. It is unclear how long it will take to complete them.

I apologize for the need to provide this update and revised recommendations. This is a complex issue with uncertain timing requirements, and we do not have housing expertise on staff.