

## # AI 18 Inadequate SVdP Project Fiscal Cosigner Oversight, Gating Factors

### Background

In spring 2024, the city heard detailed analysis from Mark Krug, the consultant CoS hired to evaluate SVdP's proposed 'extremely low income' CoS housing project, who concluded there was a barely adequate proposed operating budget and that he was dubious about the ability of the project to succeed.

At the April 2, 2024 city council meeting the council voted to withdraw from SVdP's project due to financial risk to the city, concerns about the city's 15-year financial obligation to it, cost shortfalls, and SvDP's underestimated operating expenses.

Under subsequent threat of legal action by SVdP and at a time when CoS was also under huge legal pressure from a crushingly expensive ACLU lawsuit on behalf of RV campers demanding the right to live on CoS streets, councillor Maurer brought the topic back at the June 18th council meeting and cast the deciding vote to reverse the previous decision, therefore making CoS cosigners on the project.

### Changes in societal thinking, political landscape

Since that meeting there have been significant shifts in thinking amongst homeless / SMI / addition experts around the efficacy of the 'Housing First' concept beliefs that addictions and / or SMI can best be solved by providing free housing.

This expert thinking has been compounded by a political pendulum swing at a federal level around HUD and other grants for homekey and other homeless non profit projects, exacerbated by a tight economy. Project development and funding landscape risk has changed significantly for the worse since the city signed on to cosign and partner with SVdP.

Because California 'Homekey' state grants are only initial project start cash injections to add SRO's to our [underfunded](#) and [fragmented affordable housing system](#) (as Sonoma county's Nolan Sullivan and Michael Gauss detailed last month at our council meeting), there are now grave concerns at a systemic level in 2025 that many projects don't / won't have sufficient funding for supporting long-term operations going forward. This is the [single largest challenge and concern](#) for Homekey grantees.

**Sadly I don't believe most of the previously promised funding for this project will materialize, as I have previously stated in past public comments both written and spoken. This puts CoS in a fiscally dangerous position. For that reason I think it is fair for SVdP to pre source all the funds for this cosigned project and have the funds**

held in escrow with CoS before proceeding.

### **SVdP information sharing on their city cosigned project**

Regarding the upcoming Sept 2 2025 council meeting, why are we not hearing from assigned consultant **Robin Stefani** (who appears to be an architect, not a HomeKey financial oversight expert) during this informational item, who it was agreed would be representing the CoS ?

SVdP previously agreed to pay, without limit, for CoS 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 consultant **Mark Krug**. Where is their input on the project in 2025 and at the meeting? Are they engaged?

Will we be hearing from Krug again, who is very well informed and knowledgeable?

While the pandemic made it hard for SVdP to complete their Gold Coin motel / 'SVDP Commons' Santa Rosa project in more affluent and grant funded times, that project has not had a good security reputation or legal track record; SvDP citing this example as their best practices for their CoS project does not inspire confidence.

### **Funding uncertainty**

County funding promises by **Tina Rivera**, the controversial former head of Sonoma County's Health Services department (who received \$165,000 as part of a county severance agreement last summer after allegations of mismanagement, and left the county last month) must be taken with several large grains of salt.

Based on the 'Gravenstein Commons' FAQ document submitted by SVdP, it sounds as though they are threatening the county with litigation to try and unlock money they thought they would be given for their project. This could be ugly, long drawn out litigation between the county and SVdP, who will also be lobbying others who implied there was funding available in easier times.

The city knows what an expensive strain on staff homeless advocate litigation is after the exhausting ACLU rights to camp on city streets bullying.

### **Commons city costs if it is ever completed**

Besides all these fiscal anxieties, assuming the project is completed and not left half finished due to lack of funds, the future inhabitants will be a significant burden on city services based on our past experiences with our only former downtown hotel Sebastopol Inn at Gravenstein Station (now 'Elderberry Commons'), which has been a spectacular drain on CoS policing and other resources.

The county coordinated entry system means CoS has no say over who will live in the new 22 half million dollar SVdP project units.

The road to expensive societal hell is paved with good intentions. I don't know anyone who doesn't yearn for solutions to the many ills that plague transients and the county unhoused.

However compassion without competence equals chaos - or worse in the case of recent 'Elderberry Commons' fiscal corruption around former county director Robinson and DEMA, and the 'co-ordinated entry' most deserving inhabitants taking up 50% of city police time.

**I once again urge council and city staff to go into this potentially city bankrupting project with eyes wide open, strong oversight and expecting to deal with worst case scenarios in the current funding climate.**

Oliver Marks  
Downtown Sebastopol

# 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 Svansborg)

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 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.”*