

Memorandum



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: June 5, 2023

Approved

Date

6/8/23

COUNCIL DISTRICT: 3

SUBJECT: AUTHORIZE THE CITY MANAGER, OR DESIGNEE, TO APPLY FOR THE CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT NOTICE OF FUNDING AVAILABILITY FOR THE HOMEKEY PROGRAM ROUND 3

RECOMMENDATION

Adopt a resolution authorizing the City Manager, or her designee, to apply for a grant up to \$6,250,000 and submit all required documentation for the California Department of Housing and Community Development's Homekey Program Round 3 to address the housing needs of individuals and families experiencing homelessness or at-risk of experiencing homelessness for the site located at 155 South 11th Street, San José, 95112.

SUMMARY AND OUTCOME

Adoption of the resolution will authorize the City of San José to apply for and submit all required documents for grant applications through the California Department of Housing and Community Development's (HCD) Homekey Program through its Notice of Funding Availability (NOFA). The Homekey grant award proceeds will partially fund the acquisition, rehabilitation, and operations of an interim housing and permanent housing program targeted to survivors of gender-based violence (domestic violence, sexual assault, human trafficking) located at 155 11th Street in San José (S. 11th Street site).

BACKGROUND

Homekey Program (Round 1)

On June 16, 2020, HCD announced the availability of approximately \$600 million of Homekey grant funding through its initial NOFA. As a result of the successful Project RoomKey implementation, Homekey was considered an effort to quickly maintain and expand permanent and interim housing opportunities for individuals or families experiencing homelessness or at risk of homelessness and for those impacted by COVID-19.

The City of San José was successful in securing \$11,953,948 in Homekey funding in September 2020. The funds were used to purchase the SureStay Hotel which is operating as a non-congregate shelter in San José.

Homekey Program (Round 2)

On September 9, 2021, HCD released its NOFA to announce the availability of approximately \$1.45 billion of Homekey grant funding through the Round 2 NOFA. This program continued the State's significant investment to sustain and rapidly expand permanent and interim housing for persons experiencing homelessness or at risk of homelessness, and who were inherently impacted by or at increased risk for medical diseases or conditions due to the COVID-19 pandemic.

On October 5, 2021, City Council authorized the City Manager to apply for HCD grant funding. The City applied and was successfully awarded \$95,769,286 for three projects, 1) Arena Hotel, 2) Pacific Motor Inn, and 3) Branham and Monterey for the creation of 365 new units.

Homekey Program (Rounds 1 and 2)

In total for Homekey Round 1 and Round 2, the City was successful in securing \$107,723,234 in Homekey grant funding to create 441 new units for individuals experiencing homelessness or at risk of homelessness as listed below:

Table 1: Total Homekey Funds Awarded to San José in Rounds 1 and 2

Property/Hotel	Address	Homekey Round	Unit Count	HCD Award Amount
SureStay Hotel	1488 N. 1 st Street	1	76	\$11,953,948
Arena Hotel	818 The Alameda	2	89	\$24,348,236
Pacific Motor Inn	405 S. 2 nd Street	2	72	\$19,868,250
Branham and Monterey	Branham Lane at Monterey Road	2	204	\$51,552,800
TOTALS (Unit Count and Dollar Amount)			441	\$107,723,234

Homekey Program (Round 3)

On March 29, 2023, HCD released its NOFA to announce the availability of approximately \$736 million of Homekey grant funding through the Round 3 NOFA which is to be awarded on a first-come, first-served basis. The goal of the program remains the same, to sustain and rapidly expand housing for persons experiencing homelessness or at risk of homelessness, and who are, thereby, disproportionately impacted by and at increased risk for medical diseases or conditions due to the COVID-19 pandemic or other communicable diseases. One significant change to the program is that the affordability requirement for interim housing has changed from 15 years to 30 years. As a result, this change made it difficult to use the program for City constructed sites that are being leased from other jurisdictions.

The Homekey funds are derived from two funding sources, each with different spending deadlines. Of the \$736 million in Homekey funding, \$435 million is derived from the Coronavirus State Fiscal Recovery Fund established by the federal American Rescue Plan Act of 2021, and \$301 million is from the State General Fund to supplement acquisition and to provide initial operating subsidies for Homekey sites. Projects receiving an award from the State's direct allocation of the federal American Rescue Plan Act of 2021 must expend the funds within eight months of the date of the award. The portion of a project's award associated with the State General Fund must be expended by June 30, 2026.

Homekey Program Components

HCD funds must be used to provide housing for the target population of individuals and families experiencing homelessness or who are at risk of homelessness and who are inherently impacted by or at increased risk for medical diseases or conditions due to the COVID-19 pandemic or other communicable diseases. Eligible uses for the grant funds include acquisition or rehabilitation of motels, hotels, hostels, or other sites and assets, including apartments or homes, adult residential facilities, residential care facilities for the elderly, manufactured housing, commercial properties, and other buildings with existing uses that could be converted to

permanent housing or interim housing. Funds are for non-congregate housing only and existing Homekey-assisted units are ineligible.

Awards of Homekey Program funding will be made in multiple tiers starting with a baseline award of \$150,000 per unit plus a one-to-one match of a local contribution for acquisition and construction. Additional funds are available for two and three-bedroom units serving the chronically homeless and homeless youth populations. Additionally, operating subsidies are available at \$1,000 per unit per month for general applications (not otherwise serving chronically homeless or homeless youth) and \$1,400 per unit per month for homeless youth or the chronically homeless. The term of the operating subsidies ranges from two to three years based on a local commitment for operating costs that exceed the match by one year. For example, to receive two years of operating subsidies, the project must have three years of operating funds committed to the project.

HCD will assess a threshold scoring criteria and will make awards on an over-the-counter basis due to anticipated oversubscription of funds. Applicants must demonstrate site control and identified partners and include a proposed operating and services budget. The State released the application on April 24, 2023, and the application submission period will close on July 28, 2023. Awards will be announced as early as 60 to 90 days after a completed application is submitted. All applications must be submitted by a public agency. Locally, those agencies could include the City of San José, the County of Santa Clara, and the Santa Clara County Housing Authority.

Homekey Program funds will be distributed by region throughout California based on statistics from the point-in-time homeless count and the number of severely rent burdened, extremely low-income households. The total allocation for the Bay Area is \$200 million. The Bay Area region is made up of eight counties including Alameda, Contra Costa, Marin, Napa, San Mateo, Santa Clara, Solano, and Sonoma and the City and County of San Francisco. Table 2 below provides the distribution of funds by region.

Table 2 - Geographic Distribution of Homekey Program Round 3 Funds

Region	Severely Rent	2022 Point-in-Time Count	Round 3 Allocation
Los Angeles	415,350	69,144	\$211,813,531
Bay Area	199,165	38,118	\$111,112,027
Southern California	203,610	15,672	\$68,783,638
San Joaquin	105,430	12,085	\$43,252,159
Central Coast	37,165	8,113	\$22,657,376
Sacramento	70,340	12,379	\$37,158,338
San Diego	95,570	8,427	\$34,345,268
Balance of State	32,265	7,583	\$20,708,081
Totals	1,158,895	171,521	\$549,830,418

Regulatory Relief

The Homekey Program provides regulatory relief for housing proposals awarded Homekey funds. There are exemptions related to CEQA and land use restrictions that may be utilized by a developer as it moves forward with its proposed housing solutions.

ANALYSIS

Homelessness, as well as the lack of available affordable housing for extremely low-income populations, continues to be a pressing issue for the City of San José and the County of Santa Clara. According to the United States Department of Housing and Urban Development's 2022 Annual Homeless Assessment Report, among the 48 Major City Continuums of Care, the County of Santa Clara has:

1. The fourth largest homeless population;
2. The largest unsheltered homeless population;
3. The fourth largest veteran homeless population;
4. The third largest unaccompanied homeless youth (under 25) population; and
5. The largest population of unaccompanied homeless youth who are unsheltered.

According to the National Alliance to End Homelessness, the homeless and housing crisis in America is the result of decades of policy choices and disinvestment by federal and state governments. The root causes of homelessness lie in long-standing social inequities and structural problems in our society. In the County, a few systemic factors push residents into homelessness every day. These include a lack of affordable housing, rising economic inequality, underinvestment in programs serving the most vulnerable, and systemic and structural racism. The root cause of homelessness is a combination of systemic failures. Individual factors, such as addiction or mental health, intersect with homelessness but are not a cause. The single greatest systemic cause of homelessness is the lack of affordable housing. It is estimated that in the County of Santa Clara, there are only 32 affordable and available rental units for every 100 extremely low-income households.¹

The 2023 homeless census revealed an overall decrease of 4.7% in San José's population experiencing homelessness as well as a 10.7% decrease – to 4,411 from 4,975 in 2022. These results reveal the importance of near-term strategies like the interim housing presented here while continuing to build permanently affordable housing.

The Community Plan to End Homelessness goal is to create 2,000 new emergency or transitional units countywide by 2025. The City has been working to expand its portfolio of alternative spaces that includes interim shelters and hotel rooms. As of May of 2023, the City Council has

¹ https://nlihc.org/sites/default/files/gap/Gap-Report_2022.pdf

approved a total of 1,090 housing and shelter opportunities that are in various stages of development. Despite the City's dedication and progress, the available supply of shelter, supportive parking, and affordable housing is still far below the need.

The YWCA shared the following data with the City regarding the unmet needs for shelter requests from survivors of domestic violence. From July 2021 to July 2022, the YWCA received 700 requests for emergency housing (shelters and motels). Of those 700 calls, YWCA staff were able to place 23.7% of survivors (166) in emergency housing and 58.2% of the calls (408) were not able to be accommodated due to motels and shelters being at full or limited staffing capacity. The other 18% of calls (126) were not placed because they did not want to be in a motel or could not meet program requirements to be in a motel. This data indicates an insufficient supply of emergency and interim housing options for survivors of domestic violence.

On September 29, 2021, the Rules and Open Government Committee approved a memorandum from then Mayor Liccardo and City Councilmembers Peralez, Jimenez, Foley, and Mahan seeking to bring online a total of 1,000 interim housing units and 300 Homekey motel units. The City has been highly successful in securing State HCD Homekey awards in Rounds 1 and 2, totaling 237 motel rooms across three sites and one interim housing development with 204 units. Round 3 could potentially be the last round for the COVID-19 pandemic response program now that the World Health Organization has declared an end to the global health emergency. The City is putting forward a competitive application to meet an identified gap in services for survivors of gender-based violence.

Request for Information Process and Outcomes

On April 12, 2023, the Housing Department issued a Request for Information (RFI) to solicit potential property acquisition opportunities, developer sponsor partnerships, and service partnerships that would meet the goals of HCD's Homekey Program requirements. Responses to the RFI were due on April 21, 2023. Proposals were reviewed and evaluated based on a number of factors including, but not limited to, feasibility, affordable housing siting policy, underlying General Plan designation, cost, proposed services, ability to contribute operations/services dollars to the project, and certainty to acquire or master lease sites prior to December 31, 2023. For approaches involving acquisition, the City focused on the ability to evidence and secure site control and preliminary operating cost feasibility.

Based on lessons learned during previous Homekey funding rounds, as part of the RFI process, the City noticed respondents of the following City requirements: that the City would authorize no designated payees other than the City during this round of Homekey funding; that the City would receive the Homekey Award and contract directly with the developer to pass through Homekey and City funding for any acquisition, master lease, rehabilitation/construction, and/or operations; that the selected respondent would be required to enter into an agreement with the City containing terms and conditions substantially similar to those set forth in the City's Conditional

Grant Agreement, which was attached as an exhibit to the RFI; and that funding for additional years would be subject to annual City and federal appropriations.

The RFI sought out respondents interested in partnering with the City for the following objectives:

- 1) Hotels or motels available for sale;
- 2) Hotels or motels available for master lease;
- 3) Sites available for sale and rehabilitation;
- 4) Developer/sponsors interested in partnering with the City to own and operate hotels, motels, or other sites serving individuals and families experiencing homelessness or that are at high risk of being homeless; or
- 5) Sponsor/service providers interested in partnering with the City to master lease and operate hotels or motels serving the individuals and families experiencing homelessness or that are at high risk of being homeless.

The RFI also welcomed development proposals for the S. 11th Street property and invited interested developers and service providers to tour the site and develop a rehabilitation, management, and services program. The S. 11th Street property owner and County of Santa Clara Office of Supportive Housing approached the City with interest in rehabilitation of the site and future development. Since the Homekey program is an excellent tool for acquisition, the Housing Department agreed to include it in the RFI to gauge interest from developers and service providers.

City staff selected a four-person review panel that consisted of two internal City staff and two external staff from the County of Santa Clara and Santa Clara County Housing Authority. On April 27, 2023, the review panel convened and reviewed all submitted applications.

The following criteria was used by the panel to analyze the applications:

Hotel/Motel Selection Criteria

- Total price and price per door
- Age and condition of the property
- On-site amenities and communal space
- Existing installation of kitchens or kitchenettes
- Suites with one or two bedrooms
- General Plan (land use) designation
- Future development and densification potential
- Location and proximity to services and amenities
- Developer/sponsor interest

Developer/Sponsor Selection Criteria:

- Site control of an existing hotel/motel
- Explicit interest to partner at a specific site
- Description of ownership and operations experience in affordable housing
- Description of tenant services experience with a focus on individuals and families experiencing homelessness or are at high risk of being homeless
- State HCD Homekey Program experience

The Housing Department received a total of 11 responses to the RFI from property owners, developers, and service providers. There were eight response applications from hotel/motel owners, four were cost-prohibitive, one was too close to a previously-awarded Homekey hotel, one had a lien on the property, and two had non-conforming land-use designations. The hotel/motel submissions were all from owners interested in selling. The Housing Department received no developer/sponsor associated interest on these properties. Due to the lack of adequate developer/sponsor responses to the RFI and the timeline to prepare and submit an application to HCD, the Housing Department will not be moving forward to submit a Homekey application on any of the eight hotel/motel applications.

Developers and service providers also responded to the RFI. Two of the three applications submitted were for non-hotel/motel properties or projects. One of these proposals was for a new construction project submitted by a developer. The other was an acquisition/rehabilitation proposal for an eight-unit multi-family building submitted by a nonprofit. Neither of these applications were selected by the panel to move forward with an application. The third application was for the 11th Street site that the City has selected to move forward with to prepare an HCD Homekey application. The S. 11th Street property was also the site proposed by one of the two service provider applications. The site was selected by the panel because it will score strongly with the HomeKey requirements and the County and applicant proposed an operating subsidy. Further, serving survivors of gender-based violence fills a critical gap in the housing and homeless system. Housing staff is currently conducting additional due diligence for the application to HCD for the S. 11th Street site. No other proposals were selected to move forward with the HCD application at this time.

Selected Property, Developer, and Service Provider

After completing the panel review of the RFI applications, staff recommends submitting a Homekey application for the S. 11th Street property. The application submitted by the YWCA proposes the utilization of HCD Homekey 3 funding for the acquisition, rehabilitation, and operations of the S. 11th Street property for the purpose of providing a combination of interim housing and permanent housing at the site for survivors of gender-based violence (domestic violence, sexual assault, human trafficking) and their families who are currently experiencing homelessness or are immediately fleeing from a gender-based violence situation.

Property – located at 155 South 11th Street, San José, CA 95112, identified as tax parcel number 467-25-101. The site is a 0.36-acre or 15,681-square-foot parcel. The site is improved with a 10,893-square-foot fraternity house built in 1959. The building contains a total of 25 single room occupancy units and has an average unit size of 240 square feet. The building is currently occupied by two non-profit tenants. The City is currently engaged with a relocation consultant to determine what, if any, relocation assistance would be necessary should the City move forward with acquisition. The property is owned by First Community Housing. The City would purchase the site from First Community Housing and then execute a ground lease with the selected developer.

Developer – Urban Housing Communities – Urban Housing Communities is a mission-driven affordable housing developer dedicated to offering families and seniors earning 60% or less than the area median income attractive and safe places to live. Urban Housing Communities has direct experience partnering with the City on Homekey projects and is the developer/sponsor of the Arena Hotel, which was purchased and rehabilitated with Homekey 2 funds.

Service Provider – YWCA Golden Gate Silicon Valley – YWCA’s mission is to eliminate racism, empower women, and promote peace, justice, freedom, and dignity for all by offering a variety of services including housing, supportive services, therapy, employment, and childcare. YWCA was one of the first multiservice agencies in the Bay Area. YWCA works from a Housing First model and focuses on client empowerment. Participants in its housing programs work closely with a housing specialist to mitigate any barriers and secure housing in the community. Participants also collaborate with a housing advocate on long-term personal and financial goals, including a plan for maintaining their housing after transitioning to permanent housing from the interim housing.

The YWCA Golden Gate Silicon Valley would have on-site services available for tenants and their families residing at this location. At a minimum, one full-time case manager would be assigned to the site to provide on-site case management services to clients and their families. Case management services would be based on survivors identifying their own short- and long-term goals, with the primary focus on the safety and sustainability of permanent housing. Other wrap around services that case management could provide are access to legal services, criminal justice advocacy, counseling, therapy, support groups, employability, and educational resources.

The YWCA also proposes to create an onsite childcare program for tenants living in the building. Childcare is an important component for survivors to be able to work and gain income stability. The YWCA would provide licensed, subsidized childcare to allow community members to have access to childcare.

The YWCA would have an on-site property manager/resident service coordinator to attend to the daily operational needs of the property and the tenant units. This staff would also be responsible to maintain all compliance requirements related to the leasing of units, including lease

agreements, rent collections (for permanent units), and any other governmental compliance regulations that would be required.

Homekey Program Application Process

The Homekey Program application will require the submittal of specific documentation to demonstrate commitment to moving forward with the acquisition/construction of the proposed housing site. Documentation required for the application includes site control documented by a Letter of Intent or fee title, a signed term sheet between the City and developer documenting the partnership, draft Memorandum of Understanding documents between the developer and property manager or service provider, documentation related to community outreach, a statement identifying sources of funding for local funding, and other documents subject to the City's approval, as requested.

If the City's Homekey application for the S. 11th Street property is successful in securing an HCD grant award, staff will return to the City Council after completing all necessary transaction due diligence and negotiating final deal points to obtain authority to accept the Homekey grant for acquisition of the awarded properties, negotiate and execute a purchase and sale agreement, and proceed with the property transactions.

Homekey Requirements

It should be noted that Homekey has certain requirements that must be applied to funded projects.

1. Tenant Selection

Homekey requires that referrals to units funded by Homekey must be made through the local Coordinated Entry System. For persons at risk of homelessness, the Coordinated Entry System or another comparable prioritization system based on greatest need must be used. Regardless of the referral process, the system must be developed in collaboration with the local Continuum of Care. The County of Santa Clara oversees our local Continuum of Care and the Director of Housing is a voting member of the Continuum of Care.

2. Housing First

Homekey requires that recipients of funding certify that they will follow the core components of Housing First in its property management and tenant selection process.

3. Low Barrier

Projects must accept tenants regardless of sobriety, participation in services, treatments or programs, eviction history, credit history, and incarceration history consistent with Continuum of Care guidance and the Welfare and Institutions Code section 8255.

4. Affordability Covenant

Homekey Round 3 has a new longer-term affordability restriction for interim housing. Any Homekey Round 3 funded interim projects shall provide a 30-year affordability covenant that (a) is recorded in first position against the project real property for the benefit of the department, (b) restricts the use, operation, occupancy, and affordability of the project in accordance with all applicable requirements of the Homekey Round 3 NOFA and all other Homekey program requirements, and (c) incorporates the Homekey program requirements by reference.

5. Demonstration of Sustained Operating Leverage

NOFA applicants will be scored higher who can document a commitment to non-Homekey rental or operating subsidies that will be used to maintain the ongoing affordability of the project.

Next Steps

Staff's due diligence is not complete. Over the coming weeks, staff will work with partners to develop and finalize an operating budget, as well as terms for agreements between developers, property managers, and service providers. Community meetings will be held to discuss upcoming plans for the site and provide additional information to residents regarding the future housing community. Due diligence investigation into the physical, environmental, and title condition of the property is currently being conducted. Staff anticipates that this work can be completed within the next 20 days. Because of the upcoming July City Council recess and the need to apply as quickly as possible, staff seeks the City Council's approval based on staff estimates. The application will be completed and submitted once City Council approval is obtained.

Climate Smart San José Analysis

The recommendation in this memorandum aligns with one or more Climate Smart San José energy, water, or mobility goals. The recommendation furthers the goals of Climate Smart by facilitating the creation of low-income housing close to jobs and transit, which would reduce vehicle miles traveled and greenhouse gas emissions.

EVALUATION AND FOLLOW-UP

City staff will return to the City Council for authority to accept grants, for the acquisition of sites, if needed, and for the execution of the HCD Standard Agreements and any other necessary related documents to accept terms and agreements of the award and implement the projects. This

includes the authority to negotiate and execute Purchase and Sale Agreements, Ground Leases, Property Management Agreements, Tenant Service Agreements, or any other project-related agreements. Staff will prepare the results of due diligence investigations and final deal terms for any recommended property acquisitions at that time.

COST SUMMARY/IMPLICATIONS

The approval of this action will authorize staff to submit an application for Homekey grant funds for an amount not to exceed \$6,250,000 for the acquisition and rehabilitation of the property. The City contribution for the application would be up to \$2.5 million. No ongoing City funds will be needed to operate the site. As part of the application, staff will identify funding sources to provide a local contribution to both acquisition/rehabilitation and operation costs for the initial five years.

- Acquisition – Based on initial estimates, the City must contribute up to \$2.5 million in funds for these costs based on Homekey requirements for matching funds. This investment will leverage State funds to create approximately 25 new housing units and a daycare center for homeless survivors of gender-based violence. The City's investment would be approximately \$100,000 per unit. Sources of funds that will be used for this investment include Measure E and the Low and Moderate Income Housing Asset Fund. If the grant is awarded, staff will return to City Council with an updated proposal and all required budget actions.
- Rehabilitation Costs – Once the property is acquired, there will be rehabilitation that will need to be made to the building to convert it into interim and permanent housing. The anticipated cost for rehabilitation is approximately \$2 million and will be funded using Homekey funds.
- Relocation Costs – The S. 11th Street site currently has two business tenants that will need to be relocated. The City will continue to engage a relocation specialist to address any relocation needs.
- Operating and Services Costs – The Homekey Program provides operating grant funding for the initial two to three years of the development. Homekey funds will be leveraged with support services (Rapid Rehousing subsidies) from the County of Santa Clara and YWCA. The City will not need to fund operations.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

HONORABLE MAYOR AND CITY COUNCIL

June 5, 2023

Subject: Authorize the City Manager, or Designee, to Apply for the California Department of Housing and Community Development Notice of Funding Availability for the Homekey Program Round 3

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PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the June 20, 2023 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

This item was not heard by the Housing and Community Development Commission, as approvals of affordable development financing and acquisition do not fall under the functions, powers, and duties of the Commission delineated in Section 2.08.2840 of the San José Municipal Code.

CEQA

Not a project, File No. PP17-006, Grant Application with no commitment or obligation to enter into an agreement at the time of application.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

JACKY MORALES-FERRAND
Director, Housing Department

The principal author of this memorandum is Michael Reynolds, Senior Development Officer. For questions, please email michael.reynolds@sanjoseca.gov.