

## Memorandum



COUNCIL AGENDA: 10/05/21  
FILE: 21-2150  
ITEM: 8.2

## Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jacky Morales-Ferrand  
Nanci Klein

**SUBJECT:** SEE BELOW

**DATE:** September 24, 2021

Approved

Date

09/24/21

**COUNCIL DISTRICT: 3, 2, 6 & 10**

**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**

### **RECOMMENDATION**

Adopt a resolution authorizing the City Manager, or designee, to apply for grants and submit all required documentation for California Department of Housing and Community Development's Homekey Program to address housing needs of individuals and families experiencing homelessness or at risk of experiencing homelessness, and who are, thereby, inherently impacted by or at increased risk for medical diseases or conditions due to the COVID-19 pandemic for sites including the Pacific Motor Inn, Arena Hotel, Pavilion Inn, Residence Inn, and city-owned property located at the intersection of Branham Lane and Monterey Road.

### **OUTCOME**

Approval will authorize the City of San José ("City") 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 their Notice of Funding Availability ("NOFA"). The Homekey grant award proceeds will partially fund the purchase of four identified hotel acquisitions and construction of housing on a fifth city-owned site, and operations of the sites listed below:

Property/Hotel	Address	Council District	Unit Count
Pacific Motor Inn (Best Western)	405 South Second Street	3	72
Arena Hotel	817 The Alameda	6	89
Residence Inn (Marriott)	6111 San Ignacio Ave	2	150
Pavilion Inn	1280 North 4 <sup>th</sup> Street	3	61
Branham and Monterey (EIH)	Branham Lane at Monterey Road	10	176 (planned)
<b>TOTAL NEW UNITS</b>			<b>548</b>

## **BACKGROUND**

The State of California acted quickly to protect public health and safety as they responded to the novel coronavirus ("COVID-19") and engaged every level of government to prepare for and respond to the spread of the virus. In response, the California Department of Social Services launched a locally driven, State supported Project RoomKey initiative, created to provide emergency housing in hotels/motels/and trailers for sick and medically vulnerable individuals experiencing homelessness in response to COVID-19.

### ***Initial Homekey Program***

On June 16, 2020 HCD announced the availability of approximately \$600 million of Homekey grant funding through their initial NOFA. As a result of the successful Project RoomKey implementation, Homekey was considered a Phase II statewide 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 (\$10,868,000 in Acquisition and \$1,085,474 in Operating Subsidy) in September 2020. The funds were used to purchase and convert the SureStay Hotel from a temporary non-congregate shelter to 76 new permanent homes for individuals experiencing homelessness in San José.

### ***Round 2 Homekey Program***

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 is a significant investment and continues a statewide effort to sustain and rapidly expand permanent and interim housing for persons experiencing homelessness or 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.

Of the \$1.45 billion in Homekey funding, \$1.2 billion is derived from the Coronavirus State Fiscal Recovery Fund established by the federal American Rescue Plan Act of 2021 (Public Law 117-2) and \$250 million is provided by the State General Fund. The \$250 million in State General Fund money is intended to supplement the acquisition of Homekey sites to promote project feasibility. Five percent of the \$1.45 billion in Homekey funds is for HCD Department administrative costs. Projects receiving an award from the state's direct allocation of the federal American Rescue Plan must expend the funds within eight months of the date of award. The portion of a project's award associated with the State General Fund must be expended by June 30, 2026. Additionally, the NOFA requires that grantees shall complete all applicable construction and/or rehabilitation within twelve months of the date of award.

### ***Key Homekey Program Components***

Eligible uses for the grant funds include acquisition/rehabilitation of hotels and manufactured housing, master leasing of properties for non-congregate housing, conversion of units from nonresidential to residential, and new construction of units for permanent and/or interim housing uses. 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 for a local contribution for acquisition and construction. Additional funds are made available for two and three-bedrooms, units serving the chronically homeless and homeless youth populations and bonus funds for applications submitted prior to January 31, 2022 that are occupied within eight months of the grant award date. Additionally, operating subsidies are available at \$1,000 per unit per month for general applications 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 local commitment for operating costs that exceeds the match by one year. For example, to receive two years of operating subsidies, the project must have three years of operating committed to the project.

The 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, identified partners and include a proposed operating and services budget. The State will release the application on September 30, 2021; awards will be announced as early as 45 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, 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 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 the nine counties including Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma counties. Table 1 below provides the distribution of funds by region.

**Table 1 - Geographic Distribution of Homekey Program Round 2 Funds**

Region	Point in Time Count	Severely Rent-Burdened Extremely Low-Income Households	CA State Fiscal Recovery Fund Allocation	General Funds Allocation	Total Regional Distribution
Los Angeles County	58,936	395,380	\$ 296,715,462	\$ 61,966,491	\$ 358,681,953
Bay Area	35,028	196,270	\$ 165,313,375	\$ 34,524,079	\$ 199,837,454
Southern, CA	15,360	188,835	\$ 101,785,576	\$ 21,257,049	\$ 101,785,576
San Joaquin Valley	10,064	100,400	\$ 60,041,459	\$ 12,539,146	\$ 72,580,605
San Diego County	8,102	88,470	\$ 50,514,984	\$ 10,549,623	\$ 61,064,607
Sacramento Area	8,167	68,640	\$ 45,065,261	\$ 9,411,495	\$ 54,476,756
Central Coast	8,157	35,795	\$ 35,671,365	\$ 7,449,660	\$ 43,121,025
Balance of State	7,464	30,834	\$ 32,093,517	\$ 6,702,457	\$ 38,795,974

***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 the developer as they move forward with their proposed housing solutions.

**ANALYSIS**

The City has worked alongside Santa Clara County to respond strategically and swiftly to the COVID-19 pandemic. Several actions have taken place to identify both congregate and non-congregate shelter for homeless families and individuals throughout the pandemic. In an effort to secure funding for new housing opportunities for the homeless population throughout our City and County, a plan was put in place to identify sites for upcoming Homekey Program funding.

The City issued a Request for Information (“RFI”) seeking both sites and partners to develop complete Homekey Program applications. After touring, reviewing and ranking sixteen sites, the team recommends moving forward with the purchase of four hotels and developing one emergency interim housing site as Homekey Program grant applications. The sites provide a range of housing solutions including interim housing, housing for homeless youth, permanent housing for families and individuals and two long-term development opportunities to build additional permanent affordable housing.

***Request for Information Process and Outcomes***

The Housing Department, in partnership with Real Estate Services, actively began mobilizing its efforts to be prepared for the next round of Homekey Program funding opportunities. On May 11, 2021, the Housing Department issued a RFI to solicit potential property acquisition opportunities and developer sponsor partnerships that would meet the goals of HCD's Homekey Program requirements. Responses to the RFI were initially due on May 28, 2021 and then were accepted over the counter through early September 2021.

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

- 1) Hotels or motels available for sale;
- 2) Developer/Sponsors interested in partnering with the City to own and operate hotels or motels serving the individuals and families experiencing homelessness or are at high risk of being homeless.

The Housing Department received twenty-five responses; eight developer/sponsors and sixteen hotel/motel owners. In addition, Housing Department staff visited each site to evaluate the location and condition of each property.

City staff selected the five identified sites and potential developer/sponsor partnerships by using the following criteria:

**Hotel/Motel Selection Criteria**

- Total price and price per door
- Age and condition of 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

***Five Selected Properties for Homekey Program Applications***

After completing an extensive analysis, staff recommends submitting five grant applications for the properties identified in Table 2 below.

**Table 2 – Proposed Sites for Homekey Program Applications**

<b>Property</b>	<b>Address</b>	<b>Units</b>	<b>Lot Square Footage</b>	<b>Building Square Footage</b>	<b>Conditional Offer Price</b>
Pacific Motor Inn	455 South Second Street	72	33,725 (0.77 ac)	21,588	\$18,000,000
Arena Hotel	817 The Alameda	89	60,816 (1.4 ac)	62,847	\$25,000,000
Pavilion Inn	1280 N 4th Street	61	50,243 (1.15 ac)	23,183	\$15,250,000
Residence Inn	6111 San Ignacio Ave	150	169,013 (3.88 ac)	96,504	\$55,000,000
City-Owned	Branham @ Monterey	176 (planned)	98,446 (2.26 ac)	N/A	N/A

The properties selected for an application performed best of the 16 analyzed properties when weighed against the selection criteria. Properties with identified environmental contamination, unsuitable general plan designation or location, or apparent poor condition were removed from consideration. However, staff's due diligence is not complete, and investigation into the properties could result in staff not recommending to proceed with property acquisition for any of the four potential hotel acquisitions. Additionally, due diligence work may impact the final transaction price if the cost to cure any deficiencies must be accounted for. Staff will return to City Council to request authority to execute binding purchase and sale agreements and acquire any properties that are awarded Homekey funds and will present the results of the complete investigation into the environmental, title, and physical condition of the properties at that time.

***Developer/Sponsor Partners Selected***

Housing staff initiated multiple interviews with developer/sponsors to match their interest and experience with the recommended sites. As a result, the Housing Department was successful in pairing developer/sponsors with the identified sites tethered to the target population identified for each site. It is important to note that Urban Housing Communities and LifeMoves responded to the City's RFI by bringing forth not only expressed interest in partnering with the City, but also tangible development site opportunities.

- **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 was able to demonstrate site control of the Arena Hotel through a Purchase and Sale Agreement. Site control is one of HCD's top scoring criteria for this NOFA funding opportunity.
- **LifeMoves** – LifeMoves was a Homekey Round 1 awardee for the development of an Emergency Interim Housing community at the City of Mountain View. After a successful outcome in Mountain View, LifeMoves responded to the City's RFI by demonstrating how the model could be replicated in San José at the City's Branham Lane & Monterey Road property.
- **Bill Wilson Center** – Bill Wilson Center is a dedicated organization that provides services to more than 5,000 children, youth, young adults and families in Santa Clara County through our various programs. Bill Wilson Center expressed strong interest in partnering with the City to create housing opportunities for homeless youth or youth at risk of being homeless. HCD's NOFA Round 2 has dedicated an eight percent set aside (8% - \$96,000,000) of Homekey funding for projects serving homeless youth, or youth at risk of homelessness. The City, Housing Authority and Bill Wilson Center toured and vetted the Pavilion Inn viewing the property as ideal for the targeted population.
- **Housing Authority** – An independent local Government Agency that administers the Federal Rental Assistance program expressed interest in partnering with the City to not only bring experience, but resources to the identified sites. Given the scope, expense and commitment of owning and operating hotel/motels, the Housing Authority and City mutually agreed that partnering on the Pavilion Inn and Residence Inn would be the ideal strategy to share resources and mission-oriented commitments to secure a Homekey grant award.
- **PATH Ventures** – PATH Ventures, whose mission is to end homelessness for individuals, families and communities was interested in partnering with the City to manage a downtown location, the Pacific Motor Inn. PATH Ventures not only has extensive experience in affordable housing development and tenant services but was also a Homekey Round 1 awardee in the City of Los Angeles.

Staff worked to match developer/sponsors with the best property for their target population and type of housing (interim or permanent housing). Interviews are ongoing to identify a property management partner for the Residence Inn site. Table 3 below outlines each property, selected developer/sponsor and type of housing.



**Table 3 – Proposed Developer/Sponsor Partnerships**

Potential Site Partnerships	Developer/Sponsor	Housing Type
Arena Hotel	Urban Housing Communities/Home First	Permanent Housing
Pacific Motor Inn	PATH Ventures	Permanent Housing
Pavilion Inn	Housing Authority/Bill Wilson Center	Interim Housing for Homeless Youth
Residence Inn	Housing Authority/TBD	Permanent Housing for Families
Branham Lane & Monterey Road	LifeMoves	Interim Housing

***Homekey Program Application Process***

The Homekey Program application will require submittal of specific documentation to demonstrate commitment to moving forward with the acquisition/construction of each proposed housing site, including the resolution and the following documents. City staff has executed non-binding Letters of Intent (“LOI”) to acquire the Pacific Motor Inn, the Arena Hotel, and the Pavilion Inn and will use these LOIs to demonstrate the ability to acquire site control for the purpose of submitting an application for Homekey funding. Staff is actively negotiating to acquire the Residence Inn, and will submit a Homekey application for that property upon execution of a conditional LOI. These LOIs provide for staff’s ability to conduct necessary property due diligence and stipulate the City’s requirement to receive City Council authorization prior to the execution of any binding purchase agreements. Additionally, City staff will need to identify a funding source for both the acquisition/construction funds and operating funds for each application. All LOIs are contingent on the receipt of Homekey grant funding and City Council authorization to acquire the properties.

Documentation required for the application include site control documented by an LOI or fee title, signed term sheet between the City and Developer documenting the partnership, draft MOU documents between the developer and property manager or service provider, documentation related to community outreach, statement identifying sources of funding for local funding, and other documents as requested. The full application will be made available on October 1, 2021.

If any of the City’s Homekey applications are successful in securing an HCD grant award, staff will return to the 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 use. Regardless of the referral process, the system must be developed in collaboration with the local Continuum of Care (“CoC”). The County of Santa Clara oversees our local CoC. The Director of Housing is a voting member of the CoC.

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

### ***Next Steps***

Over the coming weeks, staff will work with partners to develop and finalize operating budgets, terms for agreements between developers, property managers and service providers. Community meetings will be held to discuss upcoming plans for these sites and provide additional information to residents regarding these future housing communities. Due diligence investigation into the physical, environmental, and title condition of the four hotel properties will be conducted. Applications will be completed and submitted as they are ready beginning immediately as early as October 6, 2021.

### **CONCLUSION**

If the City Council approves this recommendation, City staff will submit applications to HCD for a Homekey program award for five housing projects, including acquisition of the Pacific Motor Inn, the Arena Hotel, the Pavilion Inn, the Residence Inn, and funds for the construction of housing on City-owned property located at the intersection of Branham Lane and Monterey Road and operating funds for each.

## **EVALUATION AND FOLLOW-UP**

City staff will return to the City Council for authority to accept grant(s), for 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 results of due diligence investigations and final deal terms for any recommended property acquisitions at that time.

## **COST IMPLICATIONS**

The approval of this action will authorize staff to submit applications for Homekey grant funds. As part of the application, staff will identify funding sources to provide a local contribution to both acquisition/construction and operation costs for the initial five years.

- **Acquisition/Construction Costs** – Based on initial estimates, the City may contribute up to \$33 million in funds for these costs. This investment will leverage state funds to create 548 new housing units for homeless families and individuals. The City's investment would be approximately \$57,000 per unit, well below the typical city investment of \$125,000 per unit for permanent affordable housing. Sources of funds that will be utilized for this investment include Measure E and the Low and Moderate Income Housing Asset Fund. Staff will return to City Council for appropriation of these funds once the grant funding has been awarded.
- **Rehabilitation Costs** – Once the properties are acquired, there may be rehabilitation that will need to be made to the buildings to convert them into interim and permanent housing. The anticipated cost for rehabilitation is between \$2 and \$3 million and will be funded using Measure E or Low and Moderate Income Housing Asset Funds.
- **Relocation Costs** – The Homekey Program provides grant funding for relocation of current residents. The City will be engaging a relocation specialist to address any relocation needs.
- **Operating and Services Costs** – The Homekey Program provides grant funding for the initial two to three years of the development. These funds will be leveraged with local funds from the City and potentially the County and Housing Authority. Staff is working with each developer partner to identify the target population and funding sources that may be used for operating and services costs over the short and long term. Sources of funds that will be utilized for these costs include SB 2 funds, HOME American Rescue Plan (for services only), and potentially vouchers and/or services funding from the Santa Clara County and Housing Authority.

## **CLIMATE SMART SAN JOSE**

The recommendation in this memo 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.

## **PUBLIC OUTREACH**

A public meeting is scheduled for October 1, 2021, to provide the community with an overview of the Homekey Program strategy. Additional community meetings will be held over the coming months providing information related to the services and target populations for the Homekey sites. This memorandum will be posted for public review prior to the City Council meeting on October 5, 2021.

## **COORDINATION**

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

## **COMMISSION RECOMMENDATION/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.

/s/

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Director, Housing Department

/s/

NANCI KLEIN  
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For questions, please contact Rachel VanderVeen, Deputy Director, at (408) 535-8231.