

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Erik L. Soliván

SUBJECT: See Below

DATE: November 12, 2024

Approved



Date:

11/20/24

COUNCIL DISTRICT: 6

**SUBJECT: Disposition and Sale of Vermont House Located at 1072 and 1082
Vermont Street**

RECOMMENDATION

Adopt a resolution:

- a) Declaring the City-owned property located at 1072 and 1082 Vermont Street, San José, consisting of two parcels of land totaling approximately 0.33 acre, with two multi-family residences for a combined total building area of 5,217 square feet, further identified as Assessor's Parcel Numbers 230-42-077 and 230-42-078, as "exempt surplus land" pursuant to California Government Code §54221(f)(1)(D) and in accordance with San José Municipal Code §4.20.080(B)(2) as a transfer of surplus property to another local, state, or federal agency for that agency's use; and
- b) Authorizing the City Manager, or her designee, to negotiate and execute:
 - 1) A purchase and sale agreement with the County of Santa Clara for the sale of the properties located at 1072 and 1082 Vermont Street, San José, 95126, further identified as Assessor's Parcel Numbers 230-42-077 and 230-42-078, for a total sale price of \$310,000; and
 - 2) All other necessary documents to complete the property transfer to the County of Santa Clara.

SUMMARY AND OUTCOME

The City acquired the Vermont House in 2009. This asset consists of two parcels of land with two addresses: 1072 Vermont Street and 1082 Vermont Street (collectively referred to as the Vermont House). In 2015, the City converted the asset into a veterans

housing program supported by the Santa Clara County Housing Authority's Housing Choice Veteran Affairs Supportive Housing Voucher Program. In 2023, the Housing Department informed the program operator of the City's pending sale of the asset due to the cost for continued control and operations of the asset far exceeding the market value of the asset.

The County of Santa Clara (County) intends to purchase the asset with a grant award from the California Health Facilities Financing Authority and convert it into a pre-trial diversion program with intensive 24-hour case management services for unsheltered homeless individuals suffering from mental health and addiction ailments who have non-violent criminal justice involvement.

The City recommends the disposition and sale of the Vermont House to the County.

BACKGROUND

In 2009, the City acquired the Vermont House from a foreclosure sale for \$310,000. The asset has two addresses: 1072 Vermont Street and 1082 Vermont Street. In 2015, the City invested \$3,017,000 in improvements to the asset and converted it to veterans housing operated by Abode Services and supported by the Santa Clara County Housing Authority's Housing Choice Veteran Affairs Supportive Housing Voucher Program. In 2023, the Housing Department informed Abode Services of the pending sale and Abode Services began to depopulate the asset.

During the period of depopulation, and due to a series of deferred maintenance issues, the asset experienced a debilitating flood that expedited the vacating of the asset. Given the need for significant capital improvements to stabilize the site, estimated at up to \$1,000,000, and the projected cost of operations, which would be added to the current operating deficits of the City's interim housing portfolio, the cost for continued control and operations of the asset as interim housing far exceeded the market value of the asset.

ANALYSIS

The County was awarded a grant from the California Health Facilities Financing Authority to purchase the Vermont House. The acquired asset would be used to administer a pre-trial diversion program for unhoused, non-violent offenders suffering from mental health and addiction ailments and in compliance with California Welfare and Institutions Code Section 584851(c). This pre-trial diversion program is administered by the County's Behavioral Health Services Department. In 2023, the County and City reached concurrence to explore the disposition and sale of the Vermont House for utilization by the County's proposed program.

The Vermont House currently has a 30-year affordability restriction that was recorded in October 2001 and it has seven years remaining on the term. The Vermont House will be sold subject to the original affordability restriction. Upon transfer of the Vermont House, the County will record use and affordability restrictions on the property according to the terms and restrictions of the California Health Facilities Financing Authority funds used for acquisition, which require supportive program operations for a term of 25 years. Staff recommends that \$310,000 is fair value compensation to acquire the Vermont House based on the City's projected operational cost savings and the County's requirement to operate supportive housing for a 25-year term.

The Vermont House has significant deferred maintenance issues with plumbing; electrical; and heating, ventilation, and air conditioning systems and a recorded affordability restriction on the uses of the asset that runs until 2031. Combined, these factors reduce the asset's market value to \$310,000. In addition, upon the sale of the asset, the City-funded replacement reserve of approximately \$124,000 would be recouped. The total net of funds upon closing the transaction would be \$434,000.

Staff have begun negotiating a purchase and sale agreement and the County completed due diligence activities in advance of acquiring the Vermont House. Upon City Council's authorization to proceed with the transaction, as recommended in this memorandum, staff will execute a purchase and sale agreement with 30 days to close escrow.

The disposition and sale of the Vermont House to the County will:

- a) Eliminate fiscal liabilities for the City comprised of physical improvements to the asset and continuing operations cost as part of the City's interim housing portfolio, estimated to exceed \$1,000,000;
- b) Provide a site for the operation of a program by the County's Behavioral Health Services Department that will comprehensively serve San José residents through a continued local preference; and
- c) House unsheltered homeless individuals suffering from mental health and addiction ailments who have non-violent criminal justice involvement with intensive 24-hour case management services.

The program operated by the County's Behavioral Health Services Department has a history of success, as outlined below.

- **91% of clients remained engaged in treatment**

The program exceeded its goal (65%) for program participants remaining engaged in treatment for at least 30 days or successfully completing treatment, with 91% of program participants achieving this target.

- **Only 22% recidivated**

The program's goal was to reduce the target population's recidivism rate to 40%, compared to rates in California ranging from 44.6% to 54.3% in the prior 15 years. Only 22% of the 471 total program participants were convicted of a new felony or misdemeanor after enrolling in the program.

The County's Behavioral Health Services Department will pre-screen all program participants who will reside at the Vermont House for particular mental health and addiction conditions in order to target services provided on-site. The County's Behavioral Health Services Department will invest over \$600,000 annually in supportive services to the program participants housed on-site at the Vermont House, will continue a local preference for San José residents, and provide a priority placement for veterans who meet other qualifications for the program.

The County's purchase of the Vermont House is conditioned on receiving the asset vacant, without an operator or tenants.

EVALUATION AND FOLLOW-UP

The asset will be declared "exempt surplus land" and sold as surplus property for the County's "agency use" pursuant to California Government Code §54221(f)(1)(D), upon approval from the State of California's Department of Housing and Community Development, and in accordance with San José Municipal Code §4.20.080(B)(2).

COST SUMMARY/IMPLICATIONS

As described above, the sale of the Vermont House property will generate total proceeds of \$434,000 and eliminate fiscal liabilities for capital repairs and future operating costs in excess of \$1,000,000.

The 2024-2025 Adopted Operating Budget anticipated \$8,000,000 in new external funding for affordable housing, sourced from the sale of two properties: Vermont House and the Monterey/Bernal Emergency Interim Housing site. These funds were intended to be deposited into the Low and Moderate-Income Housing Asset Fund and allocated for affordable housing. However, with the sale proceeding for only the Vermont House property, the projected sales proceeds have been revised. The current estimate is \$310,000 based on the market value of the property, along with \$124,000 for recouping a City-funded replacement reserve, for a total of \$434,000. As a result, staff will submit a budget adjustment in the upcoming Mid-Year Budget Review Report correcting and recognizing the sale of the Vermont House property, including the recouping of the reserve balance totaling \$434,000. This future adjustment will reduce the Housing Project Reserve in the Low and Moderate Income Housing Asset Fund and

corresponding estimate Revenue from Local Agencies by \$7,566,000, leaving a Housing Project Reserve of \$21,331,550 for use on future affordable housing projects.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, City Manager's Budget Office, and the City Manager's Office of Economic Development and Cultural Affairs Real Estate Services unit.

PUBLIC OUTREACH

The County conducted public outreach and hosted two community meetings regarding the subject of this memorandum in August and September 2024. County and City staff attended both meetings, including staff from the Housing Department and County and City elected officials.

The following is a summary of community feedback from these public outreach efforts.

- The community expressed concerns regarding the shift in program participants from serving veterans to serving unsheltered homeless individuals with non-violent criminal justice involvement.
 - County staff responded to the concern by sharing that the proposed program will provide a continuing priority placement for veterans that otherwise qualify for the program.
- The community expressed concerns regarding the safety of neighbors due to the shift of serving unhoused individuals at the Vermont House property.
 - County staff responded to the concern by providing details on the program mechanics, including pre-screening program participants to serve unsheltered homeless individuals with non-violent criminal justice involvement, providing 24-hour intensive case management services, including two live-in aides, and statistical success of the program.

This memorandum will also be posted on the City Council Agenda website for the December 3, 2024 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

This item was not heard by the Housing and Community Development Commission, as components of homelessness response programs and real estate transactions do not fall under the functions, powers, and duties of the commission delineated in section [2.08.2840](#) of the San José Municipal Code.

HONORABLE MAYOR AND CITY COUNCIL

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CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

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/
Erik L. Soliván
Housing Director

For questions, please contact Banu San, Housing Policy and Planning Administrator, at Banu.San@sanjoseca.gov.