



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Jim Shannon

SUBJECT: SEE BELOW

DATE: December 1, 2022

Approved

Date

12/1/2022

COUNCIL DISTRICT: 3

SUBJECT: AUTHORIZE THE CITY MANAGER TO ACCEPT AWARD OF HOMEKEY PROGRAM ROUND 2 FUNDS AND AUTHORIZATION OF A CONDITIONAL GRANT AWARD IN AN AMOUNT UP TO \$25,026,939 TO PMI PARTNERS LLC FOR CAPITAL ACQUISITION AND REHABILITATION OF THE PACIFIC MOTOR INN SITE LOCATED AT 455 SOUTH SECOND STREET AND OPERATING FUNDS FOR UP TO SEVEN YEARS

RECOMMENDATION

(a) Adopt a resolution:

- (1) Authorizing the City Manager to accept an award of approximately \$19,868,250 in Homekey Program Round 2 funds from the California Department of Housing and Community Development to address the housing needs of individuals and families experiencing homelessness or at risk of experiencing homelessness through the acquisition of and operation of the Pacific Motor Inn located at 455 South Second Street;
- (2) Authorizing the City Manager to negotiate and execute a California Department of Housing and Community Development Standard Agreement and all necessary related documents to accept approximately \$19,868,250 in Project Homekey acquisition funding and operating subsidy;
- (3) Authorizing the Director of Housing to negotiate and execute grant documents and all other documents with PMI Partners LLC regarding the acquisition, rehabilitation, operations, and services for the Pacific Motor Inn for a grant award in the amount of up to \$19,868,250 in Project Homekey funds and \$25,026,939 from Measure E funds, subject to the appropriation of funds; and

(b) Adopt the following Appropriation Ordinance amendments in the General Fund:

- (1) Decrease the Measure E – 40% Extremely Low-Income Households Reserve by \$5,756,250; and

- (2) Increase the Measure E – Project HomeKey 2.0 (40% ELI) appropriation to the Housing Department by \$5,756,250.
- (c) Approve the Pacific Motor Inn as a “Committed Addition” to the 2023-2024 Base Budget, certifying that all associated operating and maintenance costs will be included in future Five-Year General Fund Forecasts, beginning with the 2024-2028 Forecast.

OUTCOME

City Council approval of these actions will authorize the City to accept and receive approximately \$19,868,250 in California Department of Housing and Community Development (HCD) Homekey Program Round 2 (Homekey) and commit \$25,026,939 in Measure E funds for a combined total project amount of \$44,895,189 to acquire and operate the Pacific Motor Inn (Project), a 72-unit hotel to serve extremely-low-income individuals. Additionally, in the long-term, PMI Partners LLC will redevelop the site and provide 72 supportive housing units, an additional approximately 48 affordable housing units and up to 350 new market-rate housing units on the site.

EXECUTIVE SUMMARY

The Project allows for the creation of a mixed-income community near the transit and amenities in Downtown San José and will be redeveloped at a density that is consistent with the City’s plan and zoning for Downtown. In the near term, the existing hotel will be operated as interim housing with wraparound services targeting individuals. In the long term, the site will be redeveloped and will include the replacement of 72 units at 30% of the Area Median Income, up to 48 additional affordable units at 60% of Area Median Income, and approximately 350 units of market-rate housing that will serve both individuals and families.

PMI Partners LLC is a joint venture of PATH Ventures, a California nonprofit public benefit corporation, and Westbank, a private developer. The partnership has been carefully structured to ensure the following goals are met:

1. Avoid any subsidy of private entities or market rate development with public funds (Westbank will buy out its portion of the site at a pro-rata share of the purchase price);
2. Pass through all operating funds provided by the public sector during the interim period to the nonprofit housing operator PATH Ventures as part of an operations agreement between PMI Partners LLC, and PATH Ventures;
3. Address the need for predevelopment funds for the affordable portions of the project: Westbank will front entitlement funds for the development (which PATH Ventures will ultimately reimburse on a pro-rata basis from development grants and tax credits); and
4. Ensure eligibility for future grants and tax credits for the affordable portions of the project and compliance with state laws.

BACKGROUND

The City has worked alongside the County of Santa Clara Office of Supportive Housing (County) to respond strategically and swiftly to the COVID-19 pandemic and the subsequent increased demand for non-congregate shelter and housing opportunities for unhoused residents throughout the City and County. Both agencies worked collaboratively to coordinate a plan to identify sites for upcoming opportunities through the State of California's Homekey program.

Homekey Grant Program

Homekey is a State grant program under HCD. The program mission is to provide interim or permanent housing options for persons experiencing homelessness and who are also at risk of COVID-19. It aims to achieve this by providing grant funding to eligible applicants to quickly acquire, rehabilitate, or master lease a variety of housing types. On September 9, 2021, HCD released its Notice of Funding Availability to announce the availability of approximately \$1.45 billion of Homekey grant funding through its second round of funding. This program is a significant investment to sustain and rapidly expand permanent and interim housing opportunities for persons experiencing homelessness or at risk of homelessness.

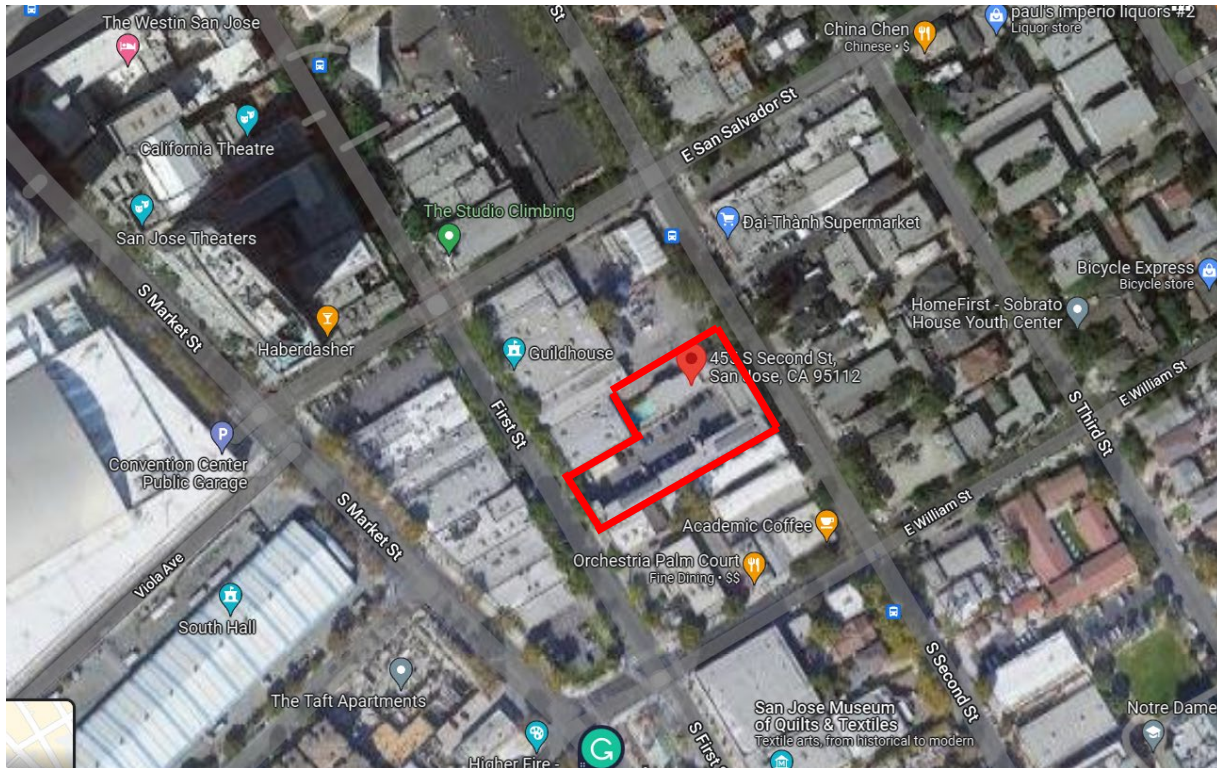
On October 5, 2021, the City Council approved actions authorizing the City Manager to apply for three Homekey grants. The Homekey sites included the Pacific Motor Inn, Arena Hotel, and the City-owned property located at the intersection of Branham Lane and Monterey Road. Staff worked diligently with PATH Ventures and Westbank to form PMI Partners LLC. This entity will contract with PATH Ventures to operate the Pacific Motor Inn on an interim basis and ultimately redevelop the site. The City and PATH Ventures were co-applicants for the Pacific Motor Inn Homekey application on April 15, 2022 that included a description of the partnership concept. On November 30, 2022, the state announced the award of Homekey funds for the Pacific Motor Inn. Staff requests authorization to negotiate and execute grant agreements with PATH Ventures, PMI Partners LLC, and/or their affiliates.. The Purchase and Sale Agreement between the property owner and PMI Partners LLC has tight timelines to complete due diligence and close on the property.

This development is an important new model to both provide permanent supportive housing and integrate units of affordable housing with market rate housing, in a challenging regulatory environment. The work to date is the result of a strong partnership between the Housing Department, the Office of Economic Development and Cultural Affairs, PATH Ventures, and Westbank.

Site Description

Pacific Motor Inn is an existing 72-room hotel on an approximately 0.77 acre lot in Downtown San José. The site is currently developed with a three-story hotel building, a two-story hotel building with a lobby, conference rooms, and a surface level paved parking lot. The hotel is currently vacant. The address is 455 S 2nd Street and the Assessor's Parcel Number is 467-47-095. Figure 1 provides a map of the site.

Figure 1: Map of the Pacific Motor Inn Site



ANALYSIS

Staff recommends the City Council allow the City Manager to accept an award of Homekey funds from HCD, authorize staff to move forward with the Pacific Motor Inn site, and execute binding contracts with HCD and PMI Partners LLC to create both short-term shelter opportunity for individuals and long-term new permanent housing opportunities for individuals and couples experiencing homelessness. The grant award aligns local initiatives with the statewide strategy to secure financial resources needed to combat the homeless crisis impacting our community. High-level details of the Homekey award are detailed below.

Short- and Long-Term Goals for the Site

During the first phase of the Project, the joint venture entity will contract with PATH Ventures to operate the Project as a shelter with robust supportive services, targeting individuals who are experiencing homelessness or who are at risk of homelessness. All of the existing 72 rooms will be reserved for Homekey-eligible residents. Also, during the first phase, the joint venture will contract with Westbank to seek entitlements for the entirety of the redevelopment, with Westbank funding the early predevelopment work until PATH Ventures secures grants and other funding to cover its pro-rata share.

For the second phase, the joint venture will construct the new project which will consist of two separate structures that will provide housing for people with a mix of incomes. The existing structure will be demolished and the land will be subdivided so two structures can be built separately. The Homekey program will require replacement housing be in place during the construction period for the displaced residents. The structure will include 72 new supportive housing units as required by the Homekey 2.0 Program and approximately 48 additional affordable housing units that will be owned and operated by PATH Ventures that will serve both individuals and families. The other structure will include a significant number of market rate residential units that will be owned and operated by Westbank.

Development Team

PMI Partners LLC (Developer)

PMI Partners LLC is a limited liability company organized in the State of California that PATH Ventures and Westbank Corporation created in 2022 to acquire, manage, and redevelop the Project. In April, PATH Ventures and Westbank entered into an operating agreement for the limited liability company and are the only members of the limited liability company. Each member shares 50% ownership interest of the entity.

PATH Ventures (PMI Partners LLC partner, Property Manager, and Service Provider)

PATH Ventures is a mission-driven affordable housing developer dedicated to end homelessness for individuals, families, and communities. PATH Ventures was founded in 2007 by *People Assisting the Homeless* to create high quality, affordable, and stable homes for families and individuals moving out of homelessness. PATH Ventures builds and operates affordable rental apartments, paired with on-site supportive services to help residents to live independent, healthy lives. PATH Ventures' portfolio includes 1,132 affordable rental homes in 19 developments.

Westbank (PMI Partners LLC partner)

Established 30 years ago, Westbank is a private company that partners with like-minded global organizations to have greater impact concentrating primarily on projects that serve as catalysts for broader change in its core cities of focus: Vancouver, Toronto, Seattle, Tokyo, and San José. As a global leader in net zero development and the co-owner of one of North America's largest district energy providers, Westbank is committed to largescale net zero carbon initiatives. Westbank's body of work includes residential, hotels, retail, creative workspace, district energy, affordable housing, exhibitions, and public art with over \$50 billion of projects completed or under development.

Summary of Key Terms for Acquisition

The site will be acquired by PMI Partners LLC for \$18,165,500, pursuant to the Purchase and Sale Agreement between PMI Partners LLC as buyer and 455 South Second Street LLC as seller

(Seller) dated November 10, 2022. This Purchase and Sale Agreement includes 60 days of due diligence. Additional closing costs are anticipated to be approximately \$165,000.

Environmental Review

The Environmental Services Department completed a Phase I Environmental Site Assessment of the Pacific Motor Inn on June 25, 2021. Environmental Services Department staff determined that there are no significant environmental liabilities that would preclude the site from being acquired for purposes of the Homekey award. As such, the Housing Department recommends that the Project move forward consistent with the recommended action in this memorandum.

Grant Agreement

The City and PMI Partners LLC and/or PATH Ventures will enter into grant agreements in the total amount of up to \$25,026,939 in Measure E funding and approximately \$19,868,250 in Project Homekey funds for a term of up to 15 years as may be needed to satisfy HCD's Homekey program for purposes of acquisition, rehabilitation, operation of, and services for the Project.

Rehabilitation and Operating Budget

This section provides an overview of the rehabilitation and operating costs and funding sources for the first phase of the project, which includes PMI Partners LLC subcontracting with PATH Ventures to rehabilitate the 72 existing units (Phase 1a) and operate them for up to seven years (Phase 1b) as temporary, non-permanent supportive homeless non-congregate housing.

Operating Budget

PMI Partners LLC will be responsible for all facility operation and maintenance costs. Homekey provides an operating subsidy and requires a match to cover the total costs. The duration of the operating subsidy is tied to the amount of the applicant's matching funds. For example, if a local jurisdiction can demonstrate a commitment of four or more years of non-Homekey operating funds for the units, HCD will provide an operating subsidy for three years. For this reason, the City elected to commit four years of operating funds to the Project in order to secure three years in operating subsidy from HCD. As a result, the City is committing \$19,270,689 of Measure E funds over a four-year period in order to secure \$3,312,000 in HCD funding for a three-year period to cover operational costs for a total of seven years.

Rehabilitation Budget

Minor rehabilitation work needs to be completed in early 2024 to prepare the building for interim housing. It includes Americans with Disabilities Act retrofit requirements, safety improvements,

and conversion of conference rooms into support services spaces. The total budget for this work is \$4,147,000.

Table 1 provides a summary of acquisition, rehabilitation, and operating costs for the Project.

Table 1: Acquisition, Rehabilitation, and Operating Budget

	Homekey Funds	City (Measure E) Funds	Total
Acquisition	\$16,556,250	\$1,609,250	\$18,165,500
Rehabilitation	\$0	\$4,147,000	\$4,147,000
Operation Subsidy	\$3,312,000	\$19,270,689	\$22,582,689
Total	\$19,868,250	\$25,026,939	\$44,895,189

CONCLUSION

The City Council’s acceptance and approval of the grant match to HCD Homekey funds will result in the creation of 72 new interim housing units to provide shelter for individuals and families experiencing homelessness in San José. Additionally, approval of the City’s grant funding commitment will enable the PMI Partners LLC to gain site control and seek entitlements for 72 units of permanent supportive housing in a new project in Downtown San José, coupled with 48 units of affordable housing and approximately 350 additional units of market rate housing.

EVALUATION AND FOLLOW-UP

The Housing Department produces periodic information memoranda regarding the use of the Director of Housing’s Delegation of Authority under the San José Municipal Code; therefore, any additional actions would be summarized in those memoranda. During the life of the Project, while it operates as an interim housing facility, performance metrics will be included in the Housing Department’s annual Homeless Report.

CLIMATE SMART SAN JOSE

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 San José 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

The Housing Department hosted a series of public meetings via an internet communications platform to share details and answer questions about the City's Homekey applications and to solicit input. The first public meeting was held on October 1, 2021 and focused on the City's overall Homekey strategy. The meeting included a presentation from the County on the regional approach to the Homekey program. On October 25, 2021, another public meeting was held to discuss this specific interim housing project proposal. The meeting included staff from the Housing Department and PATH Ventures, each provided a presentation followed by a project-specific question and answer session.

COORDINATION

The memorandum has been coordinated with the City Attorney's Office and the Office of Economic Development and Cultural Affairs.

COMMISSION RECOMMENDATION/INPUT

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

FISCAL/POLICY ALIGNMENT

The recommendations in this memorandum are consistent with the "Community Plan to End Homelessness" endorsed by the City Council in August 2020. It advances two core strategies from the Community Plan to End Homelessness: increase the capacity of the supportive housing system by creating more permanent housing options and improve the quality of life for unsheltered individuals by increasing the number of emergency shelter beds.

COST SUMMARY/IMPLICATIONS

Approval of the recommendations in this memorandum will allow for the acquisition and rehabilitation of 72 interim housing units at the Pacific Motor Inn, which is expected to be complete in the spring 2024 (Phase 1a). When including the interim housing-related operating and maintenance costs over a seven-year period (Phase 1b), the total cost of Phase 1 is approximately \$44.9 million. Future costs and actions to redevelop the property with 72 units of permanent supportive housing coupled with 48 units of affordable housing, and approximately 350 additional units of market rate housing are not included in this memorandum.

1) AMOUNT OF HOMEKEY GRANT AND MEASURE E MATCHING FUNDS:

Homekey Funds	
Homekey base award for 72 units	\$16,556,250
Homekey “operating match” portion (1:2 match with City funds for 3 years)	\$3,312,000
Total Homekey Funding Commitment	\$19,868,250
Measure E Funds	
City of San José “capital match” portion (1:1 with HomeKey)	\$5,756,250
City of San José “operating match” portion (covers 7 years)	\$19,270,689
Total City of San José Funding Commitment	\$25,026,939
Total Project Funding Amount	\$44,895,189

- 2) SOURCE OF FUNDING: Homekey 2.0 funding of \$19.9 million will be received directly by PMI Partners LLC. This memorandum recommends the commitment of \$25.0 million of Measure E funds, subject to the appropriation of funds over a seven-year period, as the City’s matching requirement to the Homekey 2.0 grant award. Of this amount, \$5.8 million is recommended for appropriation in 2022-2023 that will be disbursed to PMI Partners LLC to serve as the capital match for acquisition (\$1.60 million) and rehabilitation (\$4.15 million). Allocation of the remaining \$19.2 million of Measure E funding for operating and maintenance costs will be brought forward as part of future annual budget processes, starting with the 2023-2024 Proposed Budget development process.
- 3) FISCAL IMPACT: The annual operating and maintenance costs of approximately \$3.2 million will be included within the Base Budget as a Committed Addition in future General Fund Five-Year Forecasts, beginning with the 2024-2028 Forecast scheduled for release at the end of February 2023.

BUDGET REFERENCE

The table below identifies the fund and appropriations to fund the contract recommended as part of this memorandum.

Fund #	Appn #	Appn Name	Current Total Appn	Rec. Budget Action	2022-2023 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
001	8744	Measure E – 40% Extremely Low-Income Households Reserve	\$51,226,619	(\$5,756,250)	941	11/01/2022 Ord. No. 30842
001	224R	Measure E – Project HomeKey 2.0 (40% ELI)	\$30,857,436	\$5,726,250	N/A	11/01/2022 Ord. No. 30843

HONORABLE MAYOR AND CITY COUNCIL

December 1, 2022

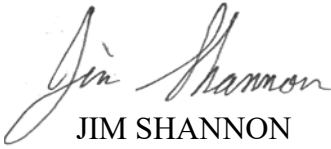
Subject: Actions Related to Homekey Program Round 2 Funds

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CEQA

Exempt from CEQA Review, File No. ER21-159, Public Health and Safety Code Section 50675.1.4.

/s/
JACKY MORALES-FERRAND
Director of Housing


JIM SHANNON
Budget Director

The principal author of this memorandum is Isaac Orona, Development Officer. For questions, please contact Rachel VanderVeen, Deputy Director (408) 535-8231.