



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jacky Morales-Ferrand  
Jim Shannon

**SUBJECT:** SEE BELOW

**DATE:** September 17, 2021

Approved

Date

9/17/2021

**SUBJECT: APPROPRIATION OF YEAR ONE AWARD FOR THE PERMANENT LOCAL HOUSING ALLOCATION PROGRAM FUNDING FROM THE CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**

## RECOMMENDATION

- (a) Approve an Ordinance amending Chapter 4.80 of Title 4 of the San José Municipal Code to add a new part to establish the Building Homes and Jobs Act Fund, with an effective date of July 1, 2021.
- (b) Adopt the following Appropriation Ordinance and Funding Sources Resolution Amendments in the Building Homes and Jobs Act Fund:
  - (1) Establish an estimate for Revenue from State of California in the amount of \$4,348,646;
  - (2) Establish a Housing Shelter appropriation to the Housing Department in the amount of \$4,248,646; and
  - (3) Establish a Personal Services appropriation to the Housing Department in the amount of \$100,000.

## OUTCOME

Approval of the appropriation of the City's year one formula-based allocation of State Permanent Local Housing Allocation funds will allow the City to start funding a portion of operations costs for bridge housing communities and emergency interim communities. The need for this funding to support the City's homelessness response is urgent.

## **BACKGROUND**

### ***Permanent Local Housing Allocation Program***

In 2017, the Building Homes and Jobs Act of 2017 (SB 2) was approved, which established a source of ongoing revenues for local governments to increase the supply of affordable homes in California. The Permanent Local Housing Allocation (PLHA) Program, funded by State revenues collected pursuant to SB 2 (2017), is administered by the California Department of Housing and Community Development (HCD). The source of funds is a State \$75 recording fee on documents for certain real estate transactions. Because the number of real estate transactions recorded in each county will vary from year to year, the revenues collected will fluctuate.

San José is an entitlement local government under the PLHA program and is eligible for awards by formula, but still must apply to HCD entitlement Notices of Funding Availability. San José is eligible for PLHA funds because it has an approved Housing Element in compliance with the State Housing Law and submits Annual Progress Reports that are approved by HCD.

On June 16, 2020, the City Council approved<sup>1</sup> a five-year expenditure plan for PLHA funds. The approved use is to partially fund operations costs for bridge housing communities and emergency interim communities. In addition, staff work associated with using the funds can be charged as project delivery costs, while up to five percent of the award can be used for general administrative costs related to tracking and annual reporting on the execution of eligible activities. During the five-year expenditure plan period, up to 10% of a jurisdiction's planned expenditure for each type of eligible activity may be reallocated to another activity without the submission of a plan amendment; however, changes exceeding this amount require HCD's approval in writing. The State currently projects that San José will receive \$26.1 million in PLHA funds over five years.

Each year, HCD will publish the amount of funds the City will receive for the following year. To receive the funds, the City must submit a letter accepting the funds, submit its annual report detailing uses and expenditures of all awarded PLHA allocations and outcomes achieved, must have a certified Housing Element, and have submitted its latest Housing Element annual performance report. Housing Department staff also must submit for reimbursement of eligible costs.

On July 27, 2020, staff submitted the City's PLHA application to HCD as required by the State's deadline. On February 4, 2021, HCD notified the Director of Housing that the City's application was approved and would be funded in the amount of \$4,348,646 for year one. On June 7, 2021, the Director of Housing received the State's Standard Agreement for all five years of funding and executed the Agreement per the City Council's June 2020 authorization. The State counter-signed the Agreement on August 9, 2021.

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<sup>1</sup> File no. 20-647, June 16, 2020:

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=4551087&GUID=D78A525E-E223-4D00-8FB1-AAAB3FF35595&Options=&Search=>

## **ANALYSIS**

It is worth noting for future planning purposes that HCD's stated expectation of its approval and issuance of an executed Standard Agreement within 90 days stretched to more than 12 months. However, 2020 was an unusual year given the urgency to provide COVID-related assistance for shelter. HCD's priorities in the past year have included administering \$600 million in Project Homekey awards for homeless housing and the State's administration of \$1.4 billion in emergency rental assistance funds.

The process to obtain funds for years two through five under the existing five-year Standard Agreement is administrative. No additional City Council authorization is required, with the exception of budget appropriation actions, as long as the Council-approved five-year expenditure plan for PLHA funds is followed and not amended. HCD states that its expectation is to announce awards within 30 days of an entitlement jurisdiction's submission of a qualifying year two streamlined application.

Staff intends to apply to HCD for available year two funds in Fall 2021. Assuming an award is received within this fiscal year, the year two funds also would need to be recognized and appropriated. Depending on the timing of award, that process would preferably occur as part of the City's proposed budget development cycle.

## **CONCLUSION**

The recommended actions in this memo will enable the use of new Permanent Local Housing Allocation funding from the State of California. The funds will be used to pay for partial operating costs for the City's bridge housing communities and emergency interim communities.

## **EVALUATION AND FOLLOW-UP**

Updates on use of these funds for bridge housing operations will be provided in the Housing Department's annual report on homeless programs, and in the annual reports confirming uses provided to the State. The City Council is anticipated to approve the appropriation of year two PLHA funds as part of the City's budget process.

## **CLIMATE SMART SAN JOSE**

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

## **PUBLIC OUTREACH**

This item has been posted on the Housing Department’s website<sup>2</sup> and the City’s website<sup>3</sup> for consideration by the City Council on September 28, 2021.

## **COORDINATION**

This memorandum has been coordinated with the City Attorney’s Office.

## **COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action, as it is outside the scope of the Housing and Community Development Commission.

## **FISCAL/POLICY ALIGNMENT**

This recommendation is consistent with the City of *San José 2014-2023 Housing Element’s* Implementation Work Plan Strategy 2, Goal 29 (a), “Invest in Activities to End Homelessness - Research and explore potential alternative homeless housing and services options: Examine an array of alternative housing options, including tiny homes....” This action is also consistent with General Plan Policy H-2.7, “Support strategies in collaboration with other jurisdictions and agencies to end homelessness by creating permanent housing solutions combined with services such as medical, education, and job placement,” and the *Community Plan to End Homelessness 2020-2025*.

## **COST SUMMARY/IMPLICATIONS**

The City currently operates a total of five bridge housing and emergency interim housing sites, with another anticipated to begin construction later this fall, at the locations and costs shown below. Funding sources include the Federal Emergency Solutions Grant (ESG) – CARES, State Senate Bill 89 (SB 89), and SB2.

| <b>Location</b> | <b>Housing Type</b> | <b>Annual Operating Cost</b> | <b>Funding Source</b> |
|-----------------|---------------------|------------------------------|-----------------------|
| Mabury          | Bridge              | \$3,848,198 <sup>4</sup>     | ESG – CARES, SB2      |
| Felipe          | Bridge              |                              |                       |
| Monterey Bernal | Emergency Interim   | \$3,346,922                  | ESG - CARES and SB89  |

<sup>2</sup> See Housing Department Council Memos at: <https://www.sanjoseca.gov/your-government/departments/housing/memos-reports-plans/council-memos>

<sup>3</sup> See City Council meeting for Sep. 28, 2021: <https://sanjose.legistar.com/Calendar.aspx>

<sup>4</sup> Existing agreement expires in December 31, 2021. Staff is working on an extension.

| Location           | Housing Type             | Annual Operating Cost | Funding Source                  |
|--------------------|--------------------------|-----------------------|---------------------------------|
| Rue Ferrari        | Emergency Interim        | \$3,895,232           | ESG - CARES and SB89            |
| Evans Lane         | Emergency Interim        | \$3,600,000           | ESG – CARES, CDBG CARES and SB2 |
| E Lot <sup>5</sup> | Emergency Interim        | \$2,800,000           | SB2                             |
|                    | <b>Total Annual Cost</b> | <b>\$17,490,352</b>   |                                 |

While the City has been able to leverage a variety of Federal and State funding sources to build and operate these housing sites, the City does not have a funding source to pay for these sites on an ongoing basis. Until an ongoing source can be identified, staff will continue to piece together one-time funding to provide the necessary services at each site.

Of the \$4,348,646 allocation of PLHA funds, 98% (\$4.2 million) will be used for bridge and emergency interim housing operating costs, with the remaining \$100,000 allocated for grant administration and support. This allocation is in accordance with the with the City Council’s June 16, 2020 approved five-year expenditure plan for the PLHA funds. The recommended action also establishes the Building Homes and Jobs Act Fund to ensure that PHLA funds are tracked and monitored in accordance with Sate regulations.

Actions will be brought forward as part of a future budget process to reallocate a portion of the existing funding sources currently appropriated for bridge and emergency interim housing site operations, as available, which allow these resources to be re-programed to support other homeless prevention efforts.

**BUDGET REFERENCE**

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

| Fund # | Appn. # | Appn. Name                       | Total Appn. | Rec. Budget Action | 2021-2022 Adopted Operating Budget Page | Last Budget Action (Date, Ord. No.) |
|--------|---------|----------------------------------|-------------|--------------------|---|-------------------------------------|
| 456    | R100    | Revenue from State of California | \$0         | \$4,348,646        | N/A                                     | N/A                                 |
| 456    | 213B    | Housing Shelter                  | \$0         | \$4,248,646        | N/A                                     | N/A                                 |
| 456    | 0561    | Housing Personal Services        | \$0         | \$100,000          | N/A                                     | N/A                                 |

<sup>5</sup> Estimated annual amount. Construction award scheduled for the October 5, 2021 City Council meeting.

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**CEQA**

Not a Project, File No. PP17-004, Government Funding Mechanism, or Fiscal Activity with no commitment to a specific project which may result in a potentially significant physical impact on the environment.

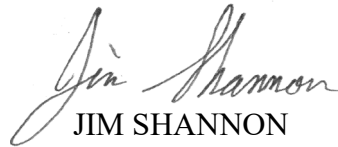
/s/

JACKY MORALES-FERRAND  
Director, Housing Department



JIM SHANNON  
Budget Director

I hereby certify that there will be available for appropriation in the Building Home and Job Act Fund in the Fiscal Year 2021-2022 monies in excess of those heretofore appropriated therefrom, said excess being at least \$4,348,646.



JIM SHANNON  
Budget Director

For questions, please contact Mark Gerhardt, Administrative Officer, at [Mark.Gerhardt@sanjoseca.gov](mailto:Mark.Gerhardt@sanjoseca.gov)