



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Erik L. Soliván

SUBJECT: See Below

DATE: March 3, 2025

Approved

Date:

3/13/25

COUNCIL DISTRICT: 6

SUBJECT: Amendment to the Standard Agreement with the California Department of Housing and Community Development for First Street Interim Housing

RECOMMENDATION

Adopt a resolution to authorize the Housing Director, or his designee, to negotiate and execute an amendment to the Standard Agreement with the California Department of Housing and Community Development to add Santa Clara County Housing Authority and its affiliated entities, Villa Garcia, Inc., and North First Gish Holding LLC, to the Standard Agreement for First Street Interim Housing.

SUMMARY AND OUTCOME

Adoption of this resolution will allow the City to negotiate and execute the Purchase and Sale Agreement and all other associated documents related to the sale of First Street Interim Housing¹ (FSIH), to the Santa Clara County Housing Authority (SCCHA), or an affiliated entity. The sale of FSIH will shift the responsibility of developing and managing FSIH to SCCHA and its affiliated entities.

Authorization to negotiate and execute an amendment to the Standard Agreement is necessary for the California Department of Housing and Community Development (HCD) to approve the transfer of the project.

¹ Formerly known as the SureStay Hotel by Best Western.

BACKGROUND

After successfully securing an award of funding from the HCD Homekey Program (Homekey), the City purchased the 76-unit former hotel in October 2020. The Homekey grant amount was \$12,230,477. Awardees of HCD Homekey funds are required to enter into an HCD Standard Agreement and abide by all Homekey programmatic requirements. Pursuant to Homekey requirements, HCD's approval is necessary to complete ownership transfer of Homekey-funded projects. HCD requires that the Standard Agreement be amended to add any new ownership entities as Co-Grantees to the Standard Agreement.

City Council previously approved the ownership transfer of FSIH on November 28, 2023². Following City Council's approval, SCCHA submitted the Standard Agreement amendment package to HCD. HCD reviewed the package and requested further evidence of the San José City Council's authorization in the form of an updated City Council resolution to add SCCHA's affiliated entities, more specifically, Villa Garcia, Inc., the sole member and manager of North First Gish Holding LLC, to the agreement. HCD did not inform the City until after the November 2023 City Council action that Villa Garcia, Inc. would need to be added to the Standard Agreement amendment as a Co-Grantee and that City Council would have to approve the amendment by resolution. Without this action by City Council, HCD will not complete its approval of the transfer of FSIH from the City to SCCHA. The transfer entity organizational chart is included in the **Attachment**, FSIH Transfer Entity Organizational Chart.

ANALYSIS

Property Details

FSIH is a City-owned, 76-unit, two-story hotel located at 1488 North First Street identified as the assessor's parcel number 235-02-034 (Property). The Property is approximately 65,981 square feet in size and currently includes two buildings that consist of a 76-unit hotel and a lobby building. The hotel building includes a two-bedroom unrestricted manager's unit, three unrestricted units for service providers, and 72 restricted units of interim supportive housing. Each hotel room is fully furnished and includes a bed, table, chair, microwave, private bathroom, and compact refrigerator.

² City Council Resolution No. 2023-421 Approving Ownership Transfer of FSIH, Resolution Adoption Date: November 28, 2023, Web Link: <https://records.sanjoseca.gov/Resolutions/RES2023-421.pdf>

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FSIH is currently operating as a City Emergency Interim Housing site for homeless individuals and couples.

Homekey Requirements and HCD Standard Agreement

Under the Standard Agreement, the City shall remain liable to HCD for performance and compliance thereunder regardless of any HCD-approved transfer or assignment of interest. Among its potential remedies for violation of the Standard Agreement, HCD may require the City to return the entirety of the Homekey Round 1 funds received, and the City may be disallowed from participating in future rounds of Homekey funding. To guard against this possibility, concurrently with the transfer, the City and SCCHA will be entering into a memorandum of understanding which will clarify that SCCHA will be responsible for meeting the parties' obligations as set forth in HCD's Standard Agreement, among other responsibilities.

Status of Property Transfer from the City of San José to SCCHA

On October 1, 2023, in preparation of the sale and transfer of FSIH, SCCHA took over operations of the Property and selected HomeFirst of Santa Clara County as the onsite service provider and Domus Management Company as the onsite property manager. Both have been on site at the Property providing program participant and property management services since October 1, 2023.

SCCHA is currently operating the site under an operations grant agreement with the City but without any ownership interest in FSIH. The City and SCCHA are finalizing the due diligence documents with HCD and anticipate that the sale of the Property will be complete in mid-2025, with this change in entity name to Villa Garcia, Inc., in the agreement of sale.

EVALUATION AND FOLLOW-UP

The Housing Department produces periodic information memoranda regarding the use of the Housing Director's Delegation of Authority under the San José Municipal Code; therefore, any additional actions related to this Property would be summarized in those memoranda. In addition, the Housing Department posts periodic reports on the status of its affordable residential properties undergoing rehabilitation or construction on its website, www.sjhousing.org. If the recommended actions are approved, they will be included in the Housing Department's periodic production reports.

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COST SUMMARY/IMPLICATIONS

City Council approved the sale of FSIH on November 28, 2023, to SCCHA and its affiliate and allocated \$3 million per year from Measure E revenues to the SCCHA to cover operating costs. The FSIH sale to SCCHA and its affiliate entity will be completed prior to or by the start of Fiscal Year 2025-2026.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the City Manager's Budget Office, and the California Department of Housing and Community Development.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the March 25, 2025 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment; Categorical Exempt, File No. ER23-023, CEQA Guidelines Section 15301, Existing Facilities.

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

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The principal author of this memorandum is Michael Jun, Senior Development Officer, Residential Development Division, Housing Department. For questions, please contact Michael.jun@sanjoseca.gov or (408) 534-2954.

Attachment: FSIH Transfer Entity Organizational Chart

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First Street Interim Housing Transfer Entity Org Chart

