



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Nanci Klein
Jim Shannon

SUBJECT: SEE BELOW

DATE: June 9, 2022

Approved

Date

6/10/2022

COUNCIL DISTRICT: 6

**SUBJECT: ACTIONS RELATED TO THE PROJECT HOMEKEY 2.0 FUNDS FOR
THE ARENA HOTEL LOCATED AT 817 THE ALAMEDA**

RECOMMENDATION

(a) Adopt a resolution:

- (1) Accepting an award of \$25,238,236 in Project HomeKey 2.0 funds from the California Department of Housing and Community Development (HCD) in order 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 Arena Hotel located at 817 The Alameda;
- (2) Authorizing the City Manager to negotiate and execute an HCD Standard Agreement and all other necessary related documents to accept \$25,238,236 in acquisition funding and operating subsidy from HCD in Project HomeKey 2.0 funds;
- (3) Authorizing the City Manager to negotiate and execute an assignment and assumption agreement for the City of San José (City) to assume the role of Buyer in the Purchase and Sale Agreement and Joint Escrow Instructions dated October 14, 2020, first amended on June 30, 2021;, second amended on November 30, 2021;, third amended on February 28, 2022;, and fourth amended on April 26, 2022, (collectively PSA) between Ikaika Ohana as buyer and Mill Valley Motel Investments, Inc., Morgan Hill Motel Investments Inc., Arena Hotel Investments, Inc., and Needles Motel Investments, LLC., collectively as Seller (Seller) for the purchase of the Arena Hotel located at 817 The Alameda, identified as APN 261-01-007 for a price of \$22,900,000 (Project);
- (4) Authorizing the Director of Housing to negotiate and execute grant documents and all other documents with Urban Housing Communities, or its affiliate Ikaika Ohana (Developer) regarding the rehabilitation, and operations of, and services for the Project

for a grant award in the amount of \$23,150,672 from Project Homekey 2.0 Funds and Measure E Funds;

- (5) Authorizing the Director of Housing to enter into a Ground Lease with the Developer of the City-owned property located at 817 The Alameda for a term of up to 15 years for the purposes of rehabilitating and operating the Project; and
 - (6) Approving a total commitment of \$25,238,236 in Project Homekey 2.0 Funds and \$20,857,436 in Measure E Funds totaling \$46,095,672 for the acquisition, rehabilitation and operation of the Project.
- (b) Adopt the following Fiscal Year 2022-2023 Appropriation Ordinance Amendments in the Multi-Source Housing Fund:
- (1) Increase the estimate for Revenue from the State of California by \$25,238,236; and
 - (2) Establish a Project HomeKey 2.0 appropriation to the Housing Department in the amount of \$25,238,236.
- (c) Adopt the following Fiscal Year 2022-2023 Appropriation Ordinance Amendments in the General Fund:
- (1) Decrease the Measure E – 40% Extremely-Low-Income Households Reserve by \$20,857,436; and
 - (2) Establish a Project HomeKey 2.0 appropriation to the Housing Department in the amount of \$20,857,436.

OUTCOME

Approval will authorize the City to accept and receive \$25,238,236 in funds from the California Department of Housing and Community Development's Homekey 2.0 Program (Homekey) through their Notice of Funding Availability (NOFA). The Homekey award proceeds will fund the purchase of an 89-unit hotel located at 817 The Alameda and support the rehabilitation and operation of the facility to serve extremely-low-income individuals and families.

BACKGROUND

The City has worked alongside the Santa Clara County Office of Supportive Housing (County) to respond strategically and swiftly to the COVID-19 pandemic. To secure funding for new housing opportunities for our unhoused residents throughout the City and County, a plan was put in place to identify sites for upcoming Homekey Program funding.

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 (Homekey 2.0). 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 conditions due to the COVID-19 pandemic.

On [October 5, 2021](#), the City Council approved actions authorizing the City Manager to apply for three HomeKey 2.0 grants. The sites included the Pacific Motor Inn, Arena Hotel, and a City-owned property located at the intersection of Branham Lane and Monterey Road.

Staff worked diligently with the Developer and their team to submit an application to HCD for the acquisition, rehabilitation, and operation of the Project. On December 18, 2021, an application for a Homekey 2.0 award was submitted for the Project. On May 10, 2021, HCD announced that the City and Developer had been awarded a Homekey 2.0 award in the amount of \$25,238,236.

ANALYSIS

Staff recommends the City Council approve the HomeKey 2.0 grant award and execute binding contracts with HCD, the Seller, and the Developer to create both a short-term shelter opportunity and long-term new permanent housing opportunities for individuals and families experiencing homelessness. Accepting the HCD award aligns our local initiatives with the statewide strategy to secure the financial resources needed to combat the homeless crisis impacting our community. High-level details of the Homekey 2.0 award opportunity are detailed below.

Development Team

The Developer has established a mission-driven team to own, manage, and operate the Arena Hotel. The key partners are listed below.

- **Developer/Sponsor (Urban Housing Communities)** - The Developer is a mission-driven affordable housing developer dedicated to offering attractive and safe places to live for families and seniors earning 60% or less than the area median income. The Developers was able to demonstrate site control of the Project through a Purchase and Sale Agreement. Site control is one of HCD's top scoring criteria for this NOFA funding opportunity. The Developer was successful in creating a team with Hyder & Company to provide property management and with HomeFirst to address tenant services for the Project in connection to the Homekey 2.0 opportunity.
- **Property Management Services (Hyder & Company)** - Hyder & Company (Hyder) has managed affordable housing throughout the state of California for over 55 years, and currently manages over 120 properties and 8,000 units. Hyder has experience in managing Project Homekey facilities since the introduction of the program. Hyder works

closely with service providers to ensure any resident issues are addressed quickly, as well as with owners, neighbors and any other stakeholders to maintain the property they manage.

- **Tenant Services (HomeFirst)** - HomeFirst is a leading provider of services for our unhoused and housing-insecure residents in the bay area with more than 40 years of experience. HomeFirst is relentlessly focused on eliminating barriers to permanent housing and building stability for the people they serve. Following the principles of Housing First and Harm Reduction models, HomeFirst excels at working with the hardest to serve populations and works diligently to help people find and retain permanent housing. HomeFirst is experienced in planning for and implementing interim housing projects and are well-positioned to build upon those efforts at the Project.

Summary of Key Terms of Acquisition

The subject property is known as 817 The Alameda, APN 261-01-007. The property is improved with a 62,847 square foot building on 60,816 square feet of land. The building consists of 89 hotel units and a two-bedroom manager's unit. The purchase price is \$22,900,000, or \$257,303 per affordable unit. Fixtures, furnishings, and equipment for the hotel operations such as beds, linens, and washing machines are included in the purchase.

The City will assume the purchase and sale agreement from Ikaika Ohana. The purchase and sale agreement calls for a \$25,000 deposit and has a 180-day due diligence period in which staff will conduct environmental, title review, and inspect the condition of the building. There is a 30-day closing period following completion of the City's examination. Closing costs will be split with the Seller. The City will acquire the property in an as-is condition pending resolution of due diligence. The City is not represented by a broker in this transaction. The seller will pay their own brokerage fees, and Ikaika Ohana will pay their own consultant fees, if any are due, subject to the Assignment and Assumption Agreement.

Environmental Report

The Environmental Services Department completed a Phase I Environmental Site Assessment of the Arena Motel in June 2021. Environmental Services Department staff determined that there are no significant environmental liabilities that would preclude the City from obtaining ownership of the property for continued use as a motel.

Short- and Long-Term Goals for the Site

The initial goal of the property is to provide immediate interim housing, with services, to individuals and families experiencing homelessness or who are at high risk of becoming homeless. Serving as interim housing, the Project will provide shelter with limited services to provide stability and support while participants search for permanent housing. HCD and City funds will cover operational expenses during the first seven years of operation since the Project will be operating as interim housing. Unhoused individuals and couples living in the surrounding area will be invited to the site. It is also anticipated that the Project will provide up to 15 units for residents of the Guadalupe Gardens encampment that qualify and need to be relocated until a permanent housing solution becomes available. As future vacancies occur at this site, new referrals will be controlled by the City and HomeFirst. Referral sources could be from City-funded Rapid Rehousing programs, street outreach teams and the SJ Bridge program. The City deployed this strategy to address the current homeless crisis and allow for flexibility to achieve the long-term goals for the site.

In the long term, the City and Developer will work together to convert the Project to provide permanent supportive housing opportunities to individuals and families experiencing homelessness, or are at high risk of becoming homeless, either by adding additional units to the existing structure or by redeveloping the site. The location of the site provides ideal access to both the downtown area as well as other parts of the county via public transit. It is the long-term goal of the site to provide residents a permanent home in an amenity-rich location with access to employment opportunities, job training resources, and needed medical and social services.

Ground Lease

The City and Developer will enter into a Ground Lease for a term of 15 years to satisfy HCD's Homekey 2.0 program. The City intends to work with the Developer to redevelop the site into permanent affordable housing. At the time of redevelopment, the City will return to City Council with an extended ground lease reflecting updated terms to reflect the long-term investment in the site.

Grant Agreement

The City and Developer will enter into a Grant Agreement for a term of up to 15 years as may be needed to satisfy HCD's Homekey 2.0 program for purposes of rehabilitation, operation of, and services for the Project.

	Homekey Funds	City (Measure E)	Totals
Rehabilitation	\$2,329,236	\$2,912,178	\$5,241,414
Operating Subsidy	\$4,994,000	\$12,915,258	\$17,909,258
Total	\$7,323,236	\$15,827,436	\$23,150,672

Relocation Services

The City of San José has contracted with Associated Right of Way Services, Inc. (Consultant) to provide relocation planning and relocation assistance to the occupants of the Project in accordance with applicable relocation assistance laws and requirements.

Consultant has met with the Property owner operator, the on-site manager, and one long-term resident household to present information about the Relocation Assistance Program. A Relocation Advisor will work with the property owner operator to determine what assistance and compensation is needed to move personal property and reestablish the hotel at a replacement site. A Relocation Advisor will work with the onsite manager and one household to provide individual advisory services to help secure replacement housing, moving costs, and replacement housing costs. The onsite manager and one household will be provided assistance and adequate time (at least 90 days) to secure replacement housing within their financial means.

Updated Estimated Project Relocation Costs May 2022 Prior to Interviews		
	<i>Most Probable Cost</i>	<i>High Estimate</i>
Relocation Payments to Eligible Displaced Persons	\$80,000	\$120,000
Relocation Consulting Services	\$15,000	\$25,000
	<u>\$95,000</u>	<u>\$145,000</u>

The above amounts are estimates pending a final relocation plan. Staff will return to the City Council for authorization to proceed with the final relocation plan if the necessary payments exceed the City Manager's authority, currently \$350,000. The estimated range of \$95,000 to \$145,000 will most likely fall below this threshold.

CONCLUSION

If City Council approves and accepts HCD HomeKey 2.0 funds, the Housing Department will be able to secure \$25,238,236 to acquire, rehabilitate, and operate the Project to create 89 units and provide immediate shelter for individuals and families experiencing homelessness in San José.

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 Municipal Code; therefore, any additional actions would be summarized in those memoranda. In addition, the Housing Department posts periodic reports on the status of its affordable properties undergoing rehabilitation or construction to its website, www.sjhousing.org. If the recommended actions are approved and the acquisition of the Project successfully closes, it would be included in these periodic production reports. During the first phase of the Project, while it operates as an interim housing facility, performance metrics will be included in the 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 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 City of San José Housing Department hosted a series of five community meetings to share information about the HomeKey 2.0 program and to gather feedback from residents on HomeKey2.0 applications being submitted for sites throughout the City.

The first meeting was held October 1, 2021 and was cohosted by the Housing Department and the County. This meeting covered the regional HomeKey 2.0 strategy and explained how the proposed Project would fit into a broader strategy for both providing immediate shelter and long-term for developing affordable housing.

A community meeting focused specifically on the Project was held on November 1, 2021. This meeting included Councilmember Davis along with representatives from the Housing Department, County, Developer, and HomeFirst. The meeting covered the site selection process, details of the Project, and a discussion of the HomeKey 2.0 program and process.

COORDINATION

The memorandum has been coordinated with the City Attorney's Office.

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 Strategy 3 which is to improve the quality of life for unsheltered individuals by increasing the number of emergency shelter beds and Strategy 1 to increase the capacity of the supportive housing system by creating more permanent housing options.

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.

COST SUMMARY/IMPLICATIONS

1. **AMOUNT OF RECOMMENDATION/COST OF PROJECT:**
 Acquisition and Closing Costs: \$22,945,000
 Rehabilitation: \$5,241,414
 Operations (7 Year Period): \$17,909,258
 Total Project Costs: \$46,095,672
2. **SOURCE OF FUNDING:** General Fund – Measure E 40% Extremely-Low-Income Reserve; Multi-Source Housing Asset Fund.
3. **FISCAL IMPACT:** The recommendations appropriate \$20,857,436 from the Measure E – 40% Extremely-Low-Income Reserve to a new city-wide Project HomeKey 2.0 appropriation and recognize \$25,238,236 in new revenue from the State of California and appropriate it to a new Project HomeKey 2.0 appropriation in the Multi-Source Housing Fund. These funds will be utilized to acquire, rehabilitate, and operate the Arena Hotel. There is no ongoing fiscal impact to the General Fund as a result of this action.

BUDGET REFERENCE

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

Fund #	Appn #	Appn Name	Proposed 2022-2023 Total Appn*	Rec. Budget Action	2022-2023 Proposed Operating Budget Page**	Last Budget Action (Date, Ord. No.)
001	8597	Measure E – 40% Extremely Low Income Reserve	\$76,230,559	(\$20,857.436)	829	N/A
001	New	Project HomeKey 2.0	\$0	\$20,857,436	N/A	N/A
448	R100	Revenue from the State of California	\$0	\$25,238,236	911	N/A
448	New	Project HomeKey 2.0	\$0	\$25,238,236	N/A	N/A

*These amounts assume City Council approval of adjustments included in Manager's Budget Addendum #42, *Recommended Amendments to the 2022-2023 Proposed Capital and Operating Budgets*.

**The 2022-2023 Proposed Operating Budget is scheduled for approval on June 14, 2022 and for adoption on June 21, 2022 by the City Council.

HONORABLE MAYOR AND CITY COUNCIL

June 9, 2022

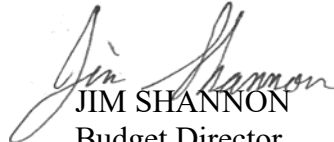
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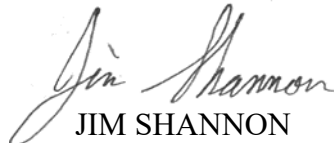
Statutorily Exempt, Public Health and Safety Code Section 50675.1.4, Homekey Round 2 Program – Arena Hotel, File No. ER21-159.

/s/
NANCI KLEIN
Director of Economic Development
and Cultural Affairs

/s/
JACKY MORALES-FERRAND
Director of Housing


JIM SHANNON
Budget Director

I hereby certify that there will be available for appropriation in the Multi-Source Housing Fund in the Fiscal Year 2022-2023 moneys in excess of those heretofore appropriated there from, said excess being at least \$25,238,236.


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.