

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Jim Shannon

SUBJECT: SEE BELOW

DATE: September 13, 2022

Approved

Date

Jacky Morales-Ferrand

9/13/2022

COUNCIL DISTRICT: 6

REPLACEMENT

**SUBJECT: GRANT AGREEMENT WITH JAMBOREE HOUSING CORPORATION
FOR THE REHABILITATION OF THE PAVILION INN PROJECT**

REASON FOR REPLACEMENT

The purpose of this replacement memorandum is to allow the Director of Housing to be granted the authority necessary to enter into a construction grant agreement for the Pavilion Inn. The original authority was inadvertently limited to a services grant agreement, which would not allow for the construction scope of services required for the rehabilitation of the Pavilion Inn.

RECOMMENDATION

- a) Adopt a resolution to authorize the Director of Housing to negotiate and execute a construction grant agreement and related documents of up to \$2,776,283 from Homeless Housing, Assistance, and Prevention Program – Round 3 (HHAP3) and Measure E Funds to Jamboree Housing Corporation (Jamboree), to finance the rehabilitation of the Pavilion Inn, located at 1280 North 4th Street, which is being acquired and converted by the Santa Clara County Housing Authority and ground leased to Jamboree to provide 39 supportive housing apartments, three mentor apartments, plus one unrestricted manager's apartment.
- b) Adopt the following Appropriation Ordinance Amendments in the Homeless Housing, Assistance, and Prevention Fund:
 - 1) Decrease the Ending Fund Balance by \$2,200,000; and
 - 2) Establish a Housing Loans and Grants appropriation to the Housing Department in the amount of \$2,200,000.
- c) Adopt the following Appropriation Ordinance Amendments in the General Fund:
 - 1) Decrease the Measure E – 40% Extremely Low-Income Households Reserve by \$576,283; and

- 2) Establish the Measure E – Pavilion Inn Rehabilitation (40% ELI) appropriation to the Housing Department in the amount of \$576,283.

OUTCOME

Approval of the recommended actions will enable Jamboree to assemble financing to convert an existing hotel, the Pavilion Inn located at 1280 North 4th Street in San José, to provide supportive housing to transitional age youth. The Pavilion Inn project will provide 42 homes (30 studio and 12 one-bedroom units) for extremely low-income households earning at or below 30 percent of the Area Median Income, plus one unrestricted manager's unit. As the funding sources are secured, construction is expected to start in the third quarter of 2022 and completed in summer 2023.

BACKGROUND

The World Health Organization, State of California, and County of Santa Clara recognized that the spread of the COVID-19 virus resulted in a life-threatening pandemic. These agencies have issued public health declarations regarding the pandemic since January 2020, including the requirement for social distancing. As a result, the need arose for non-congregate shelter options for people experiencing homeless, to protect human life, and minimize strain on health care system capacity.

On June 16, 2020, HomeKey was created by the California Department of Housing and Community Development (HCD) with the goal of providing grant funding to local government agencies to quickly acquire and convert existing buildings to supportive housing. Thus far, HomeKey has awarded 73 projects and committed over one billion dollars towards the acquisition and rehabilitation of existing buildings. An additional \$2.75 billion has been announced for future rounds of funding that will result in 4,000 renovated apartments statewide for supportive housing.

On May 11, 2021, the Housing Department issued a request for information for HomeKey – Round 2. This process resulted in twenty-four responses consisting of eight developer/sponsors and sixteen motel/hotels. The City worked to match viable sites with developer/sponsors who were interested in providing supportive housing through the HomeKey program. During the vetting process, the Housing Department invited staff from the Bill Wilson Center (BWC) to tour available motels/hotels in an effort to locate a suitable site for transitional age youth. Transitional age youth are defined as people who are between the ages of 18 and 25 who are transitioning out of foster care. Many transitional age youth are at risk of becoming homeless. Of the available motel/hotel sites visited, the Pavilion Inn was the most suitable for BWC's needs.

The Housing Department submitted three HomeKey Round 2 grant applications to HCD. In an effort to spread the administrative burden between local housing agencies, the Santa Clara County Housing Authority (Housing Authority) agreed to submit the Pavilion Inn application to

HCD as the lead public agency. The Housing Authority selected Jamboree as its development partner for the Pavilion Inn project.

On June 1, 2022, the Housing Authority was awarded \$14,328,401 in HomeKey – Round 2 funds to acquire and convert the Pavilion Inn to provide supportive housing. While this award is significant, it does not fully cover the costs associated with the Pavilion Inn project. Therefore, on June 28, 2022, Jamboree submitted a request to the City of San José (City) to provide funding for conversion costs in the amount of \$2,776,283. This funding is critical to fully fund the rehabilitation costs and thus provide much needed supportive housing in San José. The goal of this recommendation is to provide rehabilitation funding so that the Pavilion Inn project will become financially viable.

The Housing Authority will acquire the Pavilion Inn property then ground lease the site to Jamboree who will manage the construction for the project and provide long-term property management and operations services. BWC will master-lease 25 apartments as transitional housing for young adults who are moving out of the foster care system. Fourteen apartments will provide permanent housing for transitional age youth who have children under the age of 18 residing in their household. The County of Santa Clara will be providing services to these families. Finally, three units will be reserved for mentors. Mentors will assist with services to the residents and provide on-site management functions during the evenings and weekends.

ANALYSIS

Transitional Age Youth

The goal of the Pavilion Inn project is to provide supportive housing for transitional age youth while they move toward self-sufficient and independent living. The majority of youth served will be San José residents. The future residents of Pavilion Inn will be referred by the following organizations:

1. Continuum of Care Coordinated Entry System
2. County of Santa Clara Department of Family and Children's Services,
3. Direct referrals from local colleges and universities

To assist the youths' move toward independent adulthood, onsite case management services will be provided by both the Bill Wilson Center and the County of Santa Clara, such as vocational skill training, cooking and healthy eating, money management, substance abuse counseling and treatment, and connection to community resources such as the California Department of Social Services' CalWORKS and CalFresh public assistance programs. Pavilion Inn residents will be offered health care services from Gardner Family Health Care and a nurse practitioner will work onsite one day per week. Table 1 provides an overview of the target population, number of apartments, service provider and rents for each population served at the Pavilion Inn project.

Table 1 – Proposed Population Mix for the Pavilion Inn

Apartment Type	Number of Apartments	Housing Stay	Service Provider	Maximum Annual Income (2022 only)	Maximum Monthly Rent (2022 only)
BWC Master Lease	25	Transitional	BWC	\$35,400	\$885
Mentors	3	Permanent	BWC	\$35,400	\$885
Families	14	Permanent	County of Santa Clara	\$40,440	35% of household income
Manager's Unit	1	N/A	N/A	Unrestricted	N/A
Total	43				

Service Providers Onsite

BWC has been providing services to youth experiencing homelessness since 1973. Upon the completion of construction, BWC will provide supportive services to the residents for the 25 apartments it master-leases. After touring the available hotels/motels in the area, BWC staff selected the site due to its size, potential for community space and proximity to its offices located less than four miles away.

A second service provider will provide onsite services to the 14 families whose head of household is a current or former foster care youth with a dependent child(ren) living in the household. Each family will reside in an apartment that has a project-based housing voucher tied to the unit. A housing voucher means that a tenant's rent amount is based on their actual income; the household will pay 30 percent of their income toward rent while the Housing Authority will finance the remaining balance. For example, if a tenant's household monthly income is \$2,000 per month, their rent would be \$600 ($\$2,000 \times .30 = \600). This ensures that the apartments will remain affordable for low income families.

Pavilion Inn Hotel

The hotel was originally built in 1970 and was substantially renovated in 1998. The building is in good condition and the construction work will focus on exterior modifications. The hotel unit count will decrease from 61 rooms to 43 studio and one-bedroom apartments. All apartments will have kitchenettes including a food preparation area, refrigerator, sink, and two burner cooktops. All apartments will be fully furnished and have full private bathrooms. A large community laundry facility will also be provided.

The exterior building envelope will largely remain the same but changes to the exterior and landscaping are planned to include a more dynamic outdoor space with a large barbeque and patio area. The number of parking spaces will be reduced to accommodate the expanded outdoor

area. Table 2 provides an overview of the sources and uses that will be used to finance the rehabilitation of the Pavilion Inn project.

Table 2 – Funding Sources and Uses for the Pavilion Inn Rehabilitation Project

Sources	Total
Housing Authority	\$10,263,454
County of Santa Clara	\$5,000,000
HomeKey	\$14,328,401
City of San José	
- HHAP 3 Funds	\$2,200,000
- Measure E	\$576,283
Total	\$32,368,138

Uses	Total
Acquisition	\$16,250,000
Construction Costs	\$10,939,224
Architecture	\$475,000
Contingency	\$1,330,113
Permits	\$645,357
Soft Costs/Financing Costs	\$1,811,944
Developer Fee	\$916,500
Total	\$32,368,138

HHAP

HHAP was signed into law on July 31, 2019 by Governor Gavin Newsom and is administered by the California Homeless Coordinating and Financing Council within the State of California's Business, Consumer Services and Housing Agency. HHAP provides funds to local jurisdictions to advance regional coordination in an effort to prevent and end homelessness. Thus far, three rounds of funding have been provided to California's local jurisdictions.

On April 26, 2022, the City Council approved the Housing Department's HHAP3 Expenditure Plan. The Housing Department's funding award in the state's plan was \$29,118,995. City Council approved \$2,200,000 for the Pavilion Inn project, plus an additional \$800,000 for homeless youth programs and/or services. HHAP3 requires that at least 10 percent of each jurisdiction's award be reserved to meet the needs of homeless youth populations. Therefore, this recommendation is instrumental in meeting the HHAP3 funding award requirements. The additional \$576,283 needed for this grant will be funded using Measure E funds allocated to extremely low-income households.

Pavilion Inn Project Timeline

HomeKey requires strict expenditure deadlines to achieve expedited housing results. As such, the entire Pavilion Inn project must be completed within one year. Jamboree has been meeting with Planning, Building, and Code Enforcement and Public Works staff with the goal of receiving early plan review comments. Below are project benchmarks expected to be completed in the third quarter of 2022.

- Close of escrow on site acquisition
- Issuance of building permits
- Groundbreaking for the start of construction

Construction is expected to be completed in summer 2023 with new residents occupying apartments shortly thereafter.

CONCLUSION

If the City Council approves the recommended actions in this memorandum, the Housing Department will provide gap funding allowing Jamboree to acquire and rehabilitate the Pavilion Inn for the purpose of creating 39 new apartments for transitional age youth, including families, three mentor apartments, plus one unrestricted manager's apartment.

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. 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 and the acquisition of the Pavilion Inn successfully closes, it would also be included in the Housing Department's periodic production reports.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum furthers the goal 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. The site is located 0.3 miles to the light-rail stop at Gish Station.

PUBLIC OUTREACH

Public outreach was conducted by the Housing Department through its Request for Information solicitation, which was publicly released on May 11, 2021. A community meeting was hosted on October 1, 2021, providing information related to the City and County of Santa Clara proposed HomeKey grant applications, which included the Pavilion Inn program proposal. An additional community meeting was held on October 25, 2021, specifically to discuss the Pavilion Inn proposal. Furthermore, this memorandum will be posted on the City's website for the September 20, 2022, City Council meeting.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

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

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION/COST OF PROJECT:
Rehabilitation: \$2,776,283
2. SOURCE OF FUNDING: General Fund – Measure E (001); Homeless Housing, Assistance, and Prevention Fund (454).
3. FISCAL IMPACT: The recommended actions in this memorandum to rehabilitate the Pavilion Inn will be funded by \$2,200,000 in HHAP3 grant funds from the State of California and \$576,283 in General Fund (Measure E) funds.

The recommendations in this memorandum will allow the Housing Department to issue a \$2,776,283 grant to the Jamboree Housing Corporation to provide rehabilitation gap funding for the Pavilion Inn project located at 1280 North 4th Street, San José, CA.

Subject: Authorization for the Director of Housing to Negotiate and Execute a Grant Agreement to Jamboree for the Rehabilitation of Pavilion Inn**BUDGET REFERENCE**

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

Fund #	Appn #	Appn Name	Total Appn	Rec. Budget Action	Amt. for Contract	2022-2023 Proposed* Operating Budget Page	Last Budget Action (Date, Ord. No.)
001	8744	Measure E – 40% Extremely Low-Income Households Reserve	\$46,671,746	(\$576,283)	N/A	829	6/21/2022 Ord. No. 30795
001	NEW	Measure E – Pavilion Inn Rehabilitation (40% ELI)	N/A	\$576,283	\$576,283	N/A	N/A
454	8999	Unrestricted Ending Fund Balance	\$2,428,622	(\$2,200,000)	N/A	889	6/28/2022 Ord. No. 30803
454	0070	Housing Loans and Grants	\$0	\$2,200,000	\$2,200,000	N/A	N/A

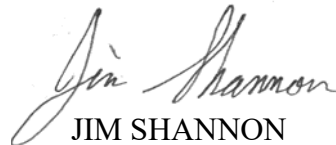
*The 2022-2023 Proposed Operating Budget, was approved by the City Council on June 14, 2022 and adopted on June 21, 2022.

CEQA

Not a discretionary project subject to CEQA pursuant to Health & Safety Code section 50675.1.4(a); Exempt per Public Resources Code 21080(b)(1) and CEQA Guidelines Section 15369 Ministerial Project pursuant to Government Code Section 65913.4, File No. ER21-159.

/s/

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JIM SHANNON
Budget Director

The principal author of this memorandum is Korey Richardson, Development Officer, Asset Management. For questions, please contact Rachel VanderVeen, Deputy Director at (408) 535-8231.