

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN JOSE (1) RATIFYING THE SUBMISSION AND EXECUTION BY THE CITY MANAGER, OF AN APPLICATION FOR PROJECT HOMEKEY FUNDS TO THE CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (“HCD”) IN ORDER TO ADDRESS HOUSING NEEDS OF INDIVIDUALS AND FAMILIES EXPERIENCING HOMELESSNESS OR AT RISK OF EXPERIENCING HOMELESSNESS AND WHO ARE IMPACTED BY THE COVID-19 PANDEMIC; (2) AUTHORIZING THE CITY MANAGER TO NEGOTIATE AND EXECUTE AN HCD STANDARD AGREEMENT AND ALL OTHER NECESSARY RELATED DOCUMENTS TO ACCEPT \$10,868,000 IN ACQUISITION FUNDING AND UP TO \$1,362,477 IN OPERATING SUBSIDY TOTALING \$12,230,477 FROM HCD IN PROJECT HOMEKEY FUNDS; (3) AUTHORIZING THE CITY MANAGER TO NEGOTIATE AND EXECUTE A PURCHASE AND SALE AGREEMENT WITH SAN JOSE HOSPITALITY, INC., FOR THE PURCHASE BY THE CITY OF SAN JOSE HOUSING DEPARTMENT OF THE SURE STAY BEST WESTERN SAN JOSE AIRPORT HOTEL LOCATED AT 1488 NORTH 1ST STREET FOR A PRICE OF \$14,136,000; AND (4) AUTHORIZING THE DIRECTOR OF HOUSING TO NEGOTIATE AND EXECUTE A PROPERTY MANAGEMENT AGREEMENT WITH SAN JOSE HOSPITALITY, INC., FOR THE PURPOSES OF PROVIDING PROPERTY MANAGEMENT SERVICES TO THE BEST WESTERN SAN JOSE AIRPORT HOTEL UPON ACQUISITION FOR THE DURATION OF 120 DAYS IN THE AMOUNT OF \$400,000

WHEREAS, the World Health Organization, State of California (“State”), and Santa Clara County (“County”) recognized that COVID-19 virus is a life-threatening pandemic, and have issued public health declarations since January 2020, and as a result of the public health declarations, including shelter in place and only essential services allowed, residents impacted by COVID-19 have faced financial challenges to afford rent due to layoffs and unemployment; and

WHEREAS, the State acted quickly to protect public health and safety as they responded to the rare coronavirus and engaged every level of government to prepare for and respond to the spread of the virus, and in response, the California Department of Social Services launched a locally driven, State supported Project RoomKey initiative, created to provide emergency housing in hotels/motels/and trailers for sick and medically vulnerable individuals experiencing homelessness in response to COVID-19; and

WHEREAS, on June 16, 2020, HCD announced the availability of approximately \$600 million of HomeKey grant funding through their Notice of Funding Availability ("NOFA"), and in continuation of the successful Project RoomKey implementation, HomeKey is considered a Phase II statewide effort to quickly maintain and expand housing opportunities for individuals or families experiencing homelessness or at risk of homelessness and for those impacted by COVID-19; and

WHEREAS, of the \$600 million in HomeKey funding, \$550 million is derived from the State's direct allocation of the federal Coronavirus Relief Fund ("CRF") and \$50 million is State General Fund, which \$50 million in state General Fund money is intended to provide operating subsidies for the proposed developments; and

WHEREAS, projects receiving an award from the State's direct allocation of the federal CRF must expend the funds by December 30, 2020 and the portion of a project's award associated with State General Fund must be expended by June 30, 2022 and, thus, depending on the funding award, the successful Project HomeKey applicant must close escrow by these expenditure deadlines; and

WHEREAS, State HCD Grant funding was made available to local public entities, including cities, counties, or other local public entities, including housing authorities, or

federally recognized tribal governments within California to purchase and rehabilitate housing, including hotels, motels, vacant apartment buildings, and other buildings and convert them into interim or permanent, long-term housing; and

WHEREAS, the State's NOFA funding criteria was directly tied to an applicant's ability to demonstrate project readiness, and project readiness was defined by two main objectives 1) Ability to demonstrate site control faster than other competing applicants, 2) Ability to house individuals or families experiencing homelessness thirty days post acquisition; and

WHEREAS, in early August, the City Manager authorized the Director of Housing to submit an application for the HomeKey program in order to acquire and operate the Sure Stay by Best Western San José Airport Hotel located at 1488 North First Street in San José ("Property"), which authorization by the City Manager requires City Council approval and ratification per the limited contracting authority granted under Section 4.04.020 of the San José Municipal Code; and

WHEREAS, on August 10, 2020, the Housing Department successfully submitted its application to HCD for HomeKey funding; and

WHEREAS, for acquisition projects, the HomeKey grant included guidelines stating the grant would generally fund up to \$100,000 per motel room (i.e. per door), as supported by an appraisal, but that in order to offset acquisition opportunities that may have higher per door appraised value in certain high cost areas, the grant allows for financial support to projects up to \$200,000 per door with a maximum per door contribution to be applied as follows: No Applicant Match Required for First \$100,000 of HomeKey grant funding For a Total Per Door of \$100,000; For the Next \$50,000 of HomeKey grant funding a 1:1 Applicant Match of Up to \$50,000 Required For a Total Per Door of \$200,000; and For the Next \$50,000 of HomeKey grant funding a 2:1 Applicant Match of Up to \$50,000 Required For a Total Per Door of \$350,000; and

WHEREAS, in addition to acquisition proceeds, the State is offering a \$1,000 per motel room for up to 24 months in operating subsidy and the Housing Department submitted its application for an award of both types of acquisition and operating subsidy funding sources to 1) Purchase the Best Western San José Airport Hotel, and 2) Financially support the operations of the hotel; and

WHEREAS, the Housing Department applied for the maximum allowance of HomeKey funds to purchase the 76-unit hotel at the purchase price of \$14,136,000 and to support the operations of the facility which requires a City match of \$3,268,000 in order the HomeKey matching requirements as follows: (1) First \$100,000 – No Match Required - HomeKey funds the first \$100,000 per door (\$100,000 times 76 units), or \$7,600,000 leaving \$6,536,000 to be one-to-one matched between the City and HomeKey; (2) Next 1:1 Match Requirement, Up to \$50,000 - HomeKey funds require a 1:1 ratio in the next stage of funding requirements. As a result, the City is required to match \$3,268,000 to HomeKey's \$3,268,000 to gap finance the remaining \$6,536,000 needed to acquire the hotel; and

WHEREAS, the Housing Department applied for the maximum operating subsidy allowed: \$1,000 x 76 units x 24 months = \$1,824,000, but based on State underwriting analysis of all operating sources such as HCD's operating subsidy, future tenant's portion of rent obligation and other sources, it was determined that the City qualified for \$1,362,477 in operating subsidy; and

WHEREAS, on September 14, 2020, the State announced its first round of notifications and awarded \$76,468,549 in funding to seven jurisdictions for 10 projects creating 579 new units for individuals and families experiencing homelessness, and the City was notified that its project was one of the ten awardees and has secured a reservation of \$12,230,477 in HomeKey funding commitment of \$10,868,000 for acquisition and \$1,362,477 in operating subsidy; and

WHEREAS, on September 14, 2020, the Housing Department was informed that its project had passed threshold application requirements and was awarded a reservation of funds for the acquisition of the Property and an operating subsidy to help support the operational costs for two years; and

WHEREAS, the HCD funding reservation is neither an award nor a funding commitment, and the conversion of a reservation into a final award of HomeKey funds is conditional on certain performance-based requirements which the City must meet critical dates and deliverables in order to secure a funding commitment namely: (A) By October 30, 2020: (1) Close of Escrow and Delivery into Escrow of Executed Grant Deed / Purchase and Sale Agreement, and (2) Submission of City Council Adopted Resolution Authorizing Acceptance of HomeKey Award and Acquisition of Property, Physical Needs Assessment and Other Due Diligence Items Requested by HCD; and (B) By December 30, 2020: (1) Expenditure of HomeKey Funds; and

WHEREAS, the purchase price is set at \$186,000 per hotel room, which totals \$14,136,000, and this price is supported by an appraisal valuing the property at \$14,490,000; and

WHEREAS, the seller, San Jose Hospitality, Inc., a California corporation, will deliver the Property free and clear of all encumbrances, conditions, covenants, and restrictions, which would affect the value of the Property, including the termination of a \$2,100,000 Deed of Trust secured against the Property, and fixtures, furnishings, and equipment for the hotel operations are included in the City's purchase, such as beds, linens, and washing machines; and

WHEREAS, other key requirements of the deal include an as-is sale and closing no later than October 30, 2020, which is necessary to secure HomeKey funds, and the

purchase contract is contingent upon HomeKey funding of the acquisition price, and the City is not obligated to purchase if it does not receive those funds; and

WHEREAS, the City engaged the services of Associated Right of Way Services, Inc. (“AR/WS”) to determine if any entities would be eligible for residential or non-residential relocation assistance as a result of a voluntary sale to the City, and AR/WS determined that there are no occupants currently living in the hotel who will be displaced as a result of the sale of the Property, except for the voluntary displacement of the owner occupant of the detached two-bedroom manager’s unit who AR/WS determined is not eligible for relocation because the owner-occupant’s displacement is voluntary and the purchase is voluntary in accordance with 49 CFR §§24.101(a)(2) and/or 24.101(b)(1) or (2); and

WHEREAS, City staff negotiated a 120-day transitional period with the seller, San Jose Hospitality, Inc., to provide interim operational and management services to the hotel in the amount of \$400,000 and that within the 120-day period, City staff will release a Request for Proposals (“RFP”) for the solicitation and subsequent award of a service provider and property manager to provide services to the residents and to manage the hotel; and

WHEREAS, a portion of the Property is currently being used by the County of Santa Clara Office of Supportive Housing (County) to shelter individuals based on medical vulnerability to COVID-19 which is evidenced by that certain Emergency Occupancy Agreement by and between the County and with the seller, San Jose Hospitality, Inc., entered into in April of 2020 and slated to expire on October 31, 2020; and

WHEREAS, a Phase I Environmental Site Assessment was completed by the Environmental Services Department on September 1, 2020 that found that the Property is nearly entirely capped with pavement or structures and that although there exists an elevated location of chlordane, this location is in an inaccessible area at 18 to 24 inches

below ground surface which poses no health risk to current occupants of the building, but that should the Property be redeveloped in the future, further investigation and possible remediation will need to occur prior to, or during redevelopment which Environmental Services estimates at \$50,000 to \$150,000 in mitigation costs; and

WHEREAS, in the short term “Transitional Period” that is expected to last approximately four months from November 1, 2020 through February 28, 2021, the City will coordinate with the County to convert the Property into Permanent Supportive Housing (PSH) which will support households ready for independent living but who will continue to have case management services provided and the City will begin the process of potentially installing kitchenettes in each unit of the Property; and

WHEREAS, in the long term “Permanent Supportive Housing phase” which will commence after February 2021, the City envisions completion of installation of the kitchenettes and full occupancy of the Property with Permanent Supportive Housing residents/clients who will be receiving case management services from third-party contracted service providers; and

WHEREAS, the approval will authorize the City to apply for, accept and receive \$12,230,477 in funds from the California Department of Housing and Community Development’s (“HCD”) HomeKey Program (“HomeKey”) through their Notice of Funding Availability (“NOFA”), which award proceeds will fund the purchase of the Property and support the operations of the hotel facility to serve extremely low income individuals and families; and

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SAN JOSE THAT:

- (1) The submission and execution by the City Manager, or his designee, of an application for Project HomeKey funds to the California Department of Housing

and Community Development (“HCD”), in order to address housing needs of individuals and families experiencing homelessness or at risk of experiencing homelessness and who are impacted by the COVID-19 pandemic, is hereby ratified;

- (2) The City Manager, or his designee, is hereby authorized to negotiate and execute an HCD Standard Agreement and all other necessary related documents to accept \$10,868,000 in acquisition funding and up to \$1,362,477 in operating subsidy totaling \$12,230,477 from HCD in Project HomeKey funds;
- (3) The City Manager, or his designee, is hereby authorized to negotiate and execute a Purchase and Sale Agreement with San José Hospitality, Inc., for the purchase by the City of San José Housing Department of the Sure Stay Best Western San José Airport Hotel located at 1488 North 1st Street for a price of \$14,136,000; and
- (4) The Director of Housing, or her designee, is hereby authorized to negotiate and execute a Property Management Agreement with San José Hospitality, Inc., for the purposes of providing property management services to the Sure Stay by Best Western San José Airport Hotel upon acquisition for the duration 120 days in the amount of \$400,000.

ADOPTED this _____ day of _____, 2020, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

SAM LICCARDO
Mayor

ATTEST:

TONI J. TABER, CMC
City Clerk