



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jacky Morales-Ferrand

**SUBJECT:** SEE BELOW

**DATE:** June 15, 2016

Approved

Date

6/20/16

**SUBJECT: PILOT HOUSING REHABILITATION PROGRAM INCENTIVIZING OWNERS OF MARKET RATE APARTMENTS TO PROVIDE HOUSING FOR HOMELESS VETERANS**

## RECOMMENDATION

Adopt a resolution approving a three-year, \$5,000,000 pilot program to provide housing rehabilitation assistance to property owners who will rent to homeless veterans of the U.S. armed forces who have housing vouchers, coupons or are receiving other forms of rental assistance; authorizing the Director of Housing to adjust the specific pilot program option terms as needed to facilitate participation and effective use of funds and making findings regarding the need for the pilot program.

## OUTCOME

Implementation of the proposed program will assist up to 225 homeless veterans obtain housing in San José.

## BACKGROUND

According to the U.S. Department of Housing and Urban Development's 2015 Annual Homeless Assessment Report, among the 48 Major City Continuums of Care, Santa Clara County has the fifth largest number of homeless veterans. There are currently 703 homeless veterans in Santa Clara County, representing 11% of the total homeless population and the third largest sub-population. Only 37% of homeless veterans in Santa Clara County are sheltered, with 63% unsheltered, further exacerbating the potential for serious health and safety issues of chronically homeless veterans living on the streets.

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According to the City of San José 2015 Homeless Census and Survey, 498 veterans of the U.S. armed forces were homeless. Veterans comprised 12% of the homeless population versus 5% of the general population in San José. Of these homeless veterans: 49% were chronically homeless versus 37% of the general homeless population; 49% suffered from chronic health problems versus 27% of the general homeless population; and 16% were female versus 34% of the general homeless population.

On Veterans Day 2015, Mayor Liccardo and Supervisor Dave Cortese launched the “All the Way Home” campaign to end veteran’s homelessness in San José and Santa Clara County. The City of San José, Santa Clara County, and Housing Authority of Santa Clara County have committed significant resources toward various effort to achieve this goal.

The Housing Authority of the County of Santa Clara administers the Veterans Affairs Supportive Housing (VASH) program which provides housing vouchers to homeless veterans.

Destination:Home administers the Supportive Housing for Veteran Families (SSVF) program on behalf of the County of Santa Clara, which provides short-term rental assistance to homeless veterans. Unfortunately, a significant number of the homeless veterans who possess some form of housing subsidy such as VASH or SSVF are unable to find housing.

On December 2, 2015, the Rules and Open Government Committee approved a memorandum from Mayor Liccardo, Vice-Mayor Herrera and Councilmember Peralez directing the Housing Department to develop a housing rehabilitation program incentivizing landlords to participate in existing housing voucher or coupon programs, and specifically targeting housing homeless veterans in a pilot of the housing rehabilitation program. The item was referred to the City Council Priority Session. On December 15, 2015, the City Council approved the development of a Housing Rehabilitation Program for homeless Veterans as priority item #10. The program described in this memorandum addresses this Council priority.

The above figures show that veterans are a much larger portion of the homeless population than the general population. When compared with the overall homeless population, Veterans are much more frequently chronically homeless and much more frequently chronically ill. For these reasons and the fact that various targeted subsidies are already available to house veterans, but they still cannot find housing, it was determined that the best pilot population for this program was veterans.

## **ANALYSIS**

In consultation with Destination:Home, the Housing Authority, and the Tri-County Apartment Association, the Housing Department has designed a program to address the varying degrees of housing rehabilitation that might be needed by local landlords who are providing housing to veterans or veteran households (Veterans) at rents that are allowed under the voucher and coupon programs. Three alternative incentive options would be provided for owners. The initial options are summarized below.

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1. Option 1 - Shared Housing: Destination: Home and the Housing Authority report that in the administration of their respective veterans housing programs, they have received inquiries from owners of single-family homes with an interest in renting rooms to Veterans consistent with San Jose Municipal Code 20.30.110. This option would offer grants of up to \$3,000 in return for housing a Veteran for at least one year.
2. Option 2 - Apartments – Basic Needs: This option is limited to the rehabilitation of the unit that will be occupied by a Veteran, offering no-interest, forgivable loans of up to \$10,000 for repairs to each such unit in return for housing a Veteran for at least three years.
3. Option 3 - Apartments – Capital Improvements: This option provides assistance for virtually any rehabilitation needs of existing structures and accessory facilities on the property, including those that would benefit units beyond those to be occupied by Veterans. Financial assistance of up to \$200,000 would be available in return for housing one to four veterans (depending on the level of assistance) for a minimum of five years. Most of this assistance would be in the form of a no-interest, 15-year deferred loan; the portion used to make repairs to the unit(s) to be occupied by veterans would be forgivable.

Staff does not believe that the same Veteran will necessarily live in a unit for the entire one-, three- or five-year minimum occupancy requirement. Should a veteran move out, he/she could be replaced by other Veteran(s) as needed to satisfy this occupancy requirement. Properties receiving rehabilitation loans through the Option 1 and Option 2 will be required to secure funding and ensure occupancy compliance through a recorded Deed of Trust, Promissory Note and Loan Agreement.

Additional program option details are provided in **Attachment A**. The Director of Housing will evaluate the demand for these options as the program progresses and make adjustments in the funding structure and terms as needed to ensure that the program is effective.

### **Program Eligibility**

Eligible properties must be located in San José. In all cases, the unit to be occupied by the Veteran must have been voluntarily vacated by the previous tenant to minimize displacement and relocation obligations. Staff will work with the County of Santa Clara Office of Supportive Housing to provide vacancy subsidies for landlords should the level of rehabilitation in those units preclude immediate occupancy by the Veteran.

For all three options, the Housing Quality Standards (HQS) published by the U.S. Department of Housing and Urban Development provide the basis for interior rehabilitation of units to be occupied by Veterans. All rehabilitation will need to be in compliance with City permitting requirements.

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The examples of Repair Elements under the Shared Housing model in Attachment A details the kinds of basics that HQS require. Additionally, all projects will be subject to all applicable Building Codes and Planning requirements.

For multi-family properties, 51% of the units will need to be occupied by households at or below 80% of Area Median Income based on household size (currently \$79,250 for a household of four), to meet the funding source requirements. Properties with existing affordability restrictions are not eligible for this program.

### **Implementation**

Housing Department staff will continue to prepare to kick off the program shortly after City Council approval. Over the next few weeks, staff will:

- Finalize the program guidelines;
- Develop project standards and specifications
- Complete development of program materials; and
- Conduct contractor outreach.

Staff will continue to work with the Destination:Home, the Housing Authority of Santa Clara County, and the Tri County Apartment Association to provide outreach and identify interested property owners to participate in the program. Staff will also continue to coordinate with the County of Santa Clara's Office of Supportive Housing to connect eligible veterans with vouchers to the housing units. Program applications will be accepted over the counter. Staff will provide guidance to property owners to identify property needs, select the appropriate Program option, and secure funding.

Staff will solicit, screen and train contractors to participate in the program. That pool of contractors would then be eligible to bid on the rehabilitation work at each property. At least two competitive bids will be required in each case. Staff will facilitate the bid procurement and contract process. The City's prevailing wage requirements (and federal Davis Bacon rules) apply when there are eight or more units on the property.

Because of the different options available, it is not possible to precisely state the number of units/rooms that would be rehabilitated under the program. Staff estimates that the program could fund approximately 225 designated veteran units. Assuming that the veteran units in the two Apartment options could be occupied in succession as the original veteran moves on, the number of homeless veterans housed could be substantially higher than 225.

In addition to the primary objective of providing housing for homeless veterans, this program may provide significant secondary benefits to other low-income tenants of properties participating in this program. Under the Option 3 option, property owners may choose to fund capital improvements such as energy efficient windows, bathroom or kitchen renovation or building accessibility to the benefit of all building tenants.

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The memorandum approved by the Rules and Open Government Committee on December 2, 2015 included two features that staff is not recommending. First, it was suggested that the program be restricted to non-rent stabilized units. Staff is recommending that the program be expanded to include rent controlled units since those older rental units are more likely to need rehabilitation assistance.

Second, it was originally intended that the program be funded from Low- and Moderate-Income Housing Asset Funds. That funding source is governed by redevelopment law. After further review, staff realized that the law no longer contains a minor rehabilitation exemption. The law now requires that a 55 year affordability restriction be recorded when these funds are used for rehabilitation of rental property. Because of these requirements, staff is recommending other, less-restrictive funding sources be used to finance this program as indicated below.

Throughout the program implementation process, City staff will evaluate the effectiveness of the various program components and the Director of Housing will make adjustments as needed to ensure that the program is successful. The program guidelines, and any subsequent changes, will be posted on the Housing Department's website.

#### **EVALUATION AND FOLLOW-UP**

Staff will include this housing rehabilitation program to house homeless veterans in its periodic reports to City Council committees on the City's Homelessness Response Program.

#### **PUBLIC OUTREACH**

This item will be posted to the City Council Agenda Website for June 28, 2016 Council meeting.

#### **COORDINATION**

Preparation of this report was coordinated with the Office of the City Attorney and the City Manager's Budget Office.

#### **FISCAL/POLICY ALIGNMENT**

These Program expenditures are consistent with: the City's current *Housing Investment Plan* in that it increases the supply of affordable housing; the City's *2015-2020 HUD Consolidated Plan* in that it will provide apartments that will be affordable for very low- and extremely low-income households; and, the *Community Plan to End Homelessness* approved by the City Council in February 2015 in that it is providing supportive housing for homeless residents.

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**COST SUMMARY/IMPLICATIONS**

1. **SOURCE OF FUNDING:** Community Development Block Grant Funds (CDBG) and Housing Trust Fund.
  
2. **FISCAL IMPACT:** This proposed \$5,000,000 Program will be implemented over a three year period. Through the 2016-2017 Annual Action Plan, the City council approved the use of \$2,500,000 of CDBG funding for this program. Additionally, approximately \$500,000 from the Housing Trust Fund will be set aside for this program in the first year. These funds have been included in the Housing Departments FY 2016-2017 Annual Budget proposal. Any unencumbered fund balances will be carried over in subsequent fiscal years over the duration of this program. Additional funding will be appropriated annually through the City's budget process as needed. The likely source of the remaining funding will be from repayments on tax-exempt bonds issued for the purpose of funding affordable housing developments.

**CEQA**

The CEQA Categorical Exemption, File No. PP13-108, CEQA Guidelines Section 15301 Existing Facilities.

/s/

JACKY MORALES-FERRAND

Director, Housing Department

For questions, please contact Jacky Morales-Ferrand, Director of Housing, at (408) 535-3855

Attachment

**Housing for Homeless Veterans  
ALTERNATIVE LOAN/GRANT PROGRAM OPTIONS**

<b>Program Component</b>	<b>1. Shared Housing</b>	<b>2. Apartments – Basic Needs</b>	<b>3. Apartments – Greater Needs</b>
<b>Use of Funds</b>	Basic Repairs <ul style="list-style-type: none"> <li>• Bring veteran room(s) and shared facilities up to HQS</li> <li>• Interior improvements only</li> <li>• Minor accessibility upgrades to serve the veteran(s)</li> </ul>	Basic Repairs <ul style="list-style-type: none"> <li>• Bring veteran unit(s) up to HQS</li> <li>• Interior improvements to veteran unit(s) only</li> <li>• Accessibility upgrades to serve veteran unit(s)</li> </ul>	<ul style="list-style-type: none"> <li>• Bring veteran and non-veteran units up to HQS</li> <li>• Basic capital improvements</li> <li>• Non-essential capital upgrades</li> </ul>
<b>Repair Elements (Examples)</b>	<ul style="list-style-type: none"> <li>• Heat</li> <li>• Hot &amp; cold running water</li> <li>• Vector control</li> <li>• Smoke and carbon monoxide detectors</li> <li>• Functioning cooking facilities</li> <li>• Functioning bathroom facilities</li> <li>• Basic health and sanitation</li> <li>• Grab bars in showers</li> </ul>	Same elements as for Shared Housing model	<ol style="list-style-type: none"> <li>1. Basic Repairs (same elements as for Shared Housing model)</li> <li>2. Indoor &amp; outdoor accessibility upgrades</li> <li>3. Basic Capital Improvements                             <ul style="list-style-type: none"> <li>• Window replacement</li> <li>• Roof replacement</li> <li>• Exterior rails</li> <li>• Exterior paint</li> <li>• Repaving</li> </ul> </li> <li>4. Non-Essential Capital Upgrades                             <ul style="list-style-type: none"> <li>• Energy upgrades</li> <li>• Solar</li> <li>• Soft-story upgrades</li> </ul> </li> </ol>
<b>Funding Limits</b>	\$3,000 per veteran	\$10,000 per veteran unit	<ul style="list-style-type: none"> <li>• Up to \$40,000 plus up to \$10,000 per unit on the property</li> <li>• \$200,000 maximum per property</li> <li>• Loan to value ratio must be 90% or less</li> </ul>

<b>Program Component</b>	<b>1. Shared Housing</b>	<b>2. Apartments – Basic Needs</b>	<b>3. Apartments – Greater Needs</b>
<b>Loan/Grant Terms</b>	Grant	<ul style="list-style-type: none"> <li>• Forgivable No-Interest Loan secured by Deed of Trust</li> <li>• Principal reduced by 1/3 each year following completion of rehab project</li> </ul>	<ul style="list-style-type: none"> <li>• 15-year No-Interest Loan secured by Deed of Trust</li> <li>• Portion expended on veteran unit(s) forgiven by 1/5 each year following completion of rehab project</li> <li>• No rent increases for one year</li> </ul>
<b>Landlord Matching Funds Requirement</b>	None	None	None
<b>Minimum Term of Occupancy by Veteran(s)</b>	Veteran(s) occupancy for one year minimum	Veteran(s) occupancy for three years minimum	<ol style="list-style-type: none"> <li>1. Veteran(s) occupancy for five years minimum</li> <li>2. Minimum number of veteran units by loan size: <ul style="list-style-type: none"> <li>• One, for loans up to \$50,000</li> <li>• Two, for loans of \$50,001-100,000</li> <li>• Three, for loans of \$100,001-150,000</li> <li>• Four, for loans of \$150,001-200,000</li> </ul> </li> </ol>
<b>Source of Housing Support for Veterans</b>	SSVF Rental and Utility Payment Assistance	VASH Vouchers	VASH Vouchers