



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: March 3, 2016

Approved

Date

3/4/16

COUNCIL DISTRICT: 3

**SUBJECT: CONDITIONAL GRANT COMMITMENT AND LEASE AGREEMENT
FOR THE PLAZA HOTEL TO HOUSE HOMELESS INDIVIDUALS**

RECOMMENDATION

(a) Adopt a resolution:

1. Approving a conditional grant commitment ("Grant") to Allied Housing, a nonprofit public benefit corporation affiliated with Abode Services, Inc. ("Abode"), of up to \$1,800,000 from the Community Development Block Grant ("CDBG") Fund to rehabilitate the Plaza Hotel, a 49 unit Single Room Occupancy (SRO) hotel located at 96 South Almaden Boulevard ("Plaza Hotel" or "Property") for the purpose of housing the homeless ("Project");
2. Authorizing the Director of Housing to enter into a lease agreement ("Lease Agreement") with Abode for a term of not more than five (5) years from the date of when the first unit is occupied; and
3. Authorizing the Director of Housing, or her designee, to set the specific business terms and to negotiate and execute any and all documents necessary to implement the Grant and the Lease Agreement.

(b) Adopt the following 2015-2016 Appropriation Ordinance amendments in the Community Development Block Grant Fund:

1. Increase the Housing Rehabilitation Loans and Grants appropriation to the Housing Department in the amount of \$1,800,000; and
2. Decrease the Land Acquisition Reserve appropriation in the amount of \$900,000.
3. Decrease the Unrestricted Ending Fund balance in the amount of \$900,000.

OUTCOME

City Council's approval of this resolution will allow the Housing Department, in partnership with Abode, to rehabilitate and operate the Plaza Hotel as homeless housing for a duration not more than five (5) years from the date of when the first unit is occupied.

BACKGROUND

On September 22, 2015, the City Council adopted a resolution directing the Director of Housing to pursue steps necessary to investigate the potential utilization of the Plaza Hotel for the purposes of housing the homeless. On December 10 and December 15, 2015, respectively, the Oversight Board of the Redevelopment Agency of the City of San José and City Council approved the sale and acquisition of the Plaza Hotel for the appraised value of \$740,000.

Successor Agency staff is currently working with the County to complete the City's acquisition of the Plaza Hotel. More specifically, the County has a lien on the Plaza Hotel. In order to remove the lien, the County may require payment or collateral to satisfy this obligation. Both entities are actively working to resolve this issue. The Plaza Hotel presents a viable opportunity to house homeless individuals in a relatively short period of time. The Housing Department is seeking immediate authorization for funding of up to \$1,800,000 to rehabilitate the Plaza Hotel, so that the Project may be expedited while the City continues to work with the County to remove the lien.

ANALYSIS

Conditional Grant Commitment to Abode to Rehabilitate the Plaza Hotel

As noted in the Housing Department's memorandum for the September 22, 2015, Council meeting, the Plaza Hotel is in a state of disrepair and requires an investment from the City to bring it to a habitable condition prior to occupancy. At this time, Abode estimates it will cost approximately \$1,500,000 to make the Plaza Hotel usable for the intended purpose of housing homeless individuals.

Once the City completes the acquisition of the Property, Abode will identify a contractor to execute the Project's rehabilitation work, in accordance with the requirements of the CDBG funding source. Abode is currently in the process of developing a bid package to determine the overall costs of the Project. However, it could take up to eight (8) weeks for Abode to complete the bid package, coordinate the bidding process, and select the contractor who will complete the work at the Plaza Hotel.

In an effort to complete the Project as quickly as possible, the Housing Department recommends the Council delegate authority to the Director of Housing to expend up to \$1,800,000 in CDBG funding to Abode for the rehabilitation of the Plaza Hotel, which allows for a 20% contingency

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to the previous estimate of \$1,500,000. This step will allow the Housing Department and Abode to move forward with the various processes concurrently, develop accurate Project estimates, and avoid delays to the overall Project schedule.

After the bidding process is completed, if the cost estimates are within the authorized total of \$1,800,000, the Project will be able to move forward seamlessly. If the estimated costs exceed \$1,800,000, the Housing Department will return to Council for further direction.

The expected timeline for rehabilitation is approximately three (3) to six (6) months. Construction is anticipated to start in the spring and be completed by the fall. Residents would move into the Plaza Hotel before the end of this calendar year. This assumes that the City and the County are able to resolve the lien issue.

As noted above, the City and County are working on a plan to satisfy the County's lien on the Plaza Hotel. Until the lien issue is resolved, the Housing Department will not be able to move forward with the acquisition and rehabilitation of the Plaza Hotel. However, if the City Council accepts the recommendations in this memorandum, the Housing Department and Abode Services will begin to engage in predevelopment activities, but will not incur significant project related costs until the lien issue is resolved.

CDBG REQUIREMENTS

Based on federal regulations governing the use of CDBG funds, the City cannot change the use of the property acquired with CDBG funds unless, after consultation with affected citizens, the City reimburses the CDBG funds in the amount of the then current fair market value of the property. The repaid CDBG funds must then be reinvested for another eligible activity.

Lease Agreement with Abode

The City will maintain ownership of the Plaza Hotel and enter into a five-year Lease Agreement with Abode who will then be responsible for operating the property. Operation of the property will include traditional property management activities, as well as on-site services for the tenants. Below is a short list of requirements Abode would be required to comply with:

- Lease each room to a homeless individual;
- Coordinate residential and supportive services;
- Collect tenant rents;
- Provide on-site 24-hour front desk services and secured access;
- Prohibit loitering outside the facility;
- Maintain and operate the facility;
- Proactively respond to neighborhood concerns; and
- Prepare a transition plan for future use of the Property after the five-year term of the Lease.

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Operations and Services

The Plaza Hotel will serve individuals who have either a City or County housing coupon who are categorized as transitionally homeless. These individuals have the ability to seek and gain employment, do not demonstrate debilitating psychological or chemical dependency issues, and therefore have the ability to eventually become independent. Since these individuals are not considered chronically homeless, the goal of the Project is for the duration of their tenancy to be relatively brief, until a longer-term or permanent housing option is available and/or they become self-sufficient.

Abode estimates the cost of operating the Plaza Hotel, which includes on-site case management, 24-hour desk coverage, and other property management obligations, at \$1,050 per unit per month. The cost for operating all 49 rooms is \$51,450 per month, or \$617,400 per year. Abode will utilize the revenue from the City or County housing coupons to cover the Plaza Hotel's operating expenses.

It is worth noting that the City has initiated conversations with the County and Housing Authority to identify additional financial resources that could be utilized for operational costs at the Plaza Hotel. If either the County or Housing Authority invests in the Project, the City will realize a savings that would allow for the deployment of these resources to assist more homeless individuals elsewhere in San José.

EVALUATION AND FOLLOW-UP

The Housing Department posts periodic reports on the status of City-facilitated affordable housing developments in its Production Report at www.sjhousing.org, on the "Reports & Data" webpage. If approved, the Plaza Hotel rehabilitation will be included in these reports.

POLICY ALTERNATIVES

To arrive at this proposal, the Housing Department considered the following option:

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| <i>Alternative:</i> | Do not appropriate funds to the Plaza Hotel Project until Abode completes the bidding process. |
| <i>Pros:</i> | The total project cost of the Plaza would be fully known. |
| <i>Cons:</i> | The timeline to house people in the Plaza Hotel would be extended by two to three (2-3) months. |
| Reason for not
Recommending: | The Plaza Hotel presents a financially viable opportunity to house homeless individuals in a timely manner. The City Council previously approved this project as a means to house homeless individuals in a more expedient manner than can be provided for by new homeless housing developments. Further delays in this project will extend the time that homeless individuals with approved rent subsidies will remain unhoused. |

PUBLIC OUTREACH

The Housing Department hosted an outreach meeting on July 15, 2015, with stakeholders from the San José Downtown Association, development firms, both commercial and residential property management companies, and others to discuss the concept of the Plaza Hotel and to address any potential concerns.

On August 14, 2015, the Housing Department attended/participated in a meeting on downtown homelessness hosted by the San José Downtown Association. An estimated 100 individuals representing the business, non-profit, and governmental industries attended the meeting. At the meeting, the Housing Department provided information on how the Plaza Hotel would be utilized to house members of the homeless population.

The memoranda for the September 22, 2015, and December 15, 2015, Council meeting were posted on the City's Council Agenda website. Further, this memorandum will be posted on the City's Council Agenda website for the March 15, 2016, Council meeting.

Finally, Abode has committed to hosting another meeting for businesses and other stakeholders to attend in April 2016.

COORDINATION

Preparation of this memorandum was coordinated with the Office of the City Attorney.

COMMISSION RECOMMENDATION

This project is included in the Housing Department's Affordable Housing Investment Plan (FY 2015/16 – FY 2016-17). Prior to adoption by the City Council on December 1, 2015, the Plan was presented to the Housing and Community Development Commission for input at the Commission's November 12 meeting.

FISCAL/POLICY ALIGNMENT

This expenditure is consistent with: the City's *Envision 2040 General Plan and the 2014-23 Adopted Housing Element* in that it will help the City meet its Regional Housing Needs Allocation and the City's 15% affordable housing goal by providing affordable units for extremely low- and very low-income residents. It is also consistent with the City's *2015-20 Consolidated Plan* in that it will provide units 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 proposes to provide housing for the homeless. The project was also included in the Affordable Housing Investment Plan (FY 2015/16 – FY 2016-17) adopted by City Council on December 1, 2015.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION:

<u>EXPENSES</u>	<u>AMOUNT</u>
Rehabilitation Cost	\$1,800,000
TOTAL	\$1,800,000

2. SOURCE OF FUNDING: Community Development Block Grant Fund (441)

3. FISCAL IMPACT: The recommended budget adjustments would allow for disbursement up to \$1,800,000 for the rehabilitation of the Plaza Hotel. Of this amount, \$900,000 will draw down a portion of the Land Acquisition Reserve not needed for property acquisitions, with the remaining costs of \$900,000 funded by the Unrestricted Ending Fund Balance.

BUDGET REFERENCE

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

Fund #	Appn #	Appn. Name	Total Appn	Proposed Action	2015-2016 Adopted Operating Budget	Last Budget Action (Date, Ord. No.)
441	8463	Land Acquisition Reserve	\$1,555,387	(\$900,000)	XI-15	10/20/15 Ord. 29636
441	8999	Unrestricted Ending Fund Balance	\$1,358,498	(\$900,000)	XI-15	2/09/16 Ord. 29688
441	0063	Housing Rehabilitation Loans and Grants	\$0	\$1,800,000	XI-15	6/23/15 Ord. 29589

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CEQA

Exempt, File No. PP15-078

/s/

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Director of Housing



JENNIFER A. MAGUIRE
Senior Deputy City Manager/
Budget Director

For questions, please contact Patrick Heisinger, Senior Development Officer at (408) 975-2647.