



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Corsiglia

SUBJECT: SEE BELOW

DATE: June 2, 2014

Approved

Date

6/5/14

COUNCIL DISTRICTS: 1, 5, 6, 8, 9 & 10

**SUBJECT: CONDITIONAL GRANT COMMITMENT TO HOUSING FOR
INDEPENDENT PEOPLE REHABILITATION PROJECT**

RECOMMENDATION

It is recommended that the City Council adopt a resolution:

1. Approving a conditional grant commitment of tax-exempt bond proceeds to Housing for Independent People ("HIP"), a nonprofit public benefit corporation, up to \$1,800,000 to rehabilitate its existing affordable rental properties at 10 locations (1059 Roewill Drive, 3825 Barker Drive, 247-249 Muirfield Drive, 1231 Minnesota Avenue, 2551 Sesame Court, 1713 and 1731 Ross Circle, and 5629, 5668 and 5684 Hoffman Court) (collectively, "Project") to provide 31 apartments or rooms in single-family and multifamily dwellings for extremely low-income ("ELI") homeless individuals and families referred by the City for five years;
2. Authorizing the Project to be exempted from the City's prevailing wage policy because the rehabilitation will be conducted at scattered sites, each with eight or fewer units; and
3. Authorizing the Director of Housing, or designee, to set the specific business terms and negotiate and execute all documents necessary to implement the rehabilitation, Project-Based Rental Assistance ("PBRA") and operating subsidy, including, but not limited to, applications, agreements, amendments, and payment requests which may be necessary in connection with the rehabilitation grant, rental assistance, and operating subsidy.

OUTCOME

Approval of the recommended actions will provide subsidized housing for at least 31 homeless encampment residents over the next five years.

BACKGROUND

During the process of developing the FY 2013-2014 Budget, the Mayor and City Council identified solving issues related to homelessness as a high priority for the City and tasked the City Administration with making a funding recommendation and strategy to support homeless outreach services, encampment clean-ups, and permanent housing. A total of \$3,670,000 was included in the 2013-2014 Adopted Operating Budget for these purposes including \$2,000,000 to provide supportive housing to residents of a targeted encampment (the "Place-Based Rapid Re-Housing Program"). A total of \$3,500,000 also was set aside in earmarked reserves for 2014-2015.

The City also has tax-exempt redevelopment bond funds from the West San Carlos project which were returned to the City prior to construction of the project. The owner of that property chose to return the funds to the City rather than meet the conditions under which they were originally granted. These funds are housing assets under Community Redevelopment Law and their use must comply with the rules for Low and Moderate Income Housing Asset funds. As they were derived from tax-exempt bond proceeds, they must be granted, used for capital improvements, and used expeditiously.

The Housing Department and its partners have found that homeless individuals have a difficult time, even with a rental subsidy in hand, to rent bedrooms and apartments in San José. The top barrier to securing rental housing is the very low vacancy rate in the local market in non-luxury rental properties. When given a choice between someone with decent credit, no eviction history, no criminal background, steady employment, and/or other "attractive" renter characteristics, and someone with little to no employment, poor credit, and/or other barriers, most landlords choose the former.

Therefore, to help expand the number of housing options for this population, the Housing Department issued a Notice of Funding Availability ("NOFA") for the Homeless Housing Program ("HHP") on September 1, 2013. This HHP NOFA offered grants of the Department's returned tax-exempt redevelopment bond funds for the acquisition, development or rehabilitation of rental properties. In return for the grant funds, the project owners would enter into agreements to make available apartments and/or rooms to house homeless persons at ELI income levels—defined as at or below 30% of Area Median Income ("AMI"), which is capped at \$22,300/year in 2014. The City would refer such residents to the grantee's properties for a period of five years. One of the key ways for NOFA applicants to earn points in the competitive process was to agree to relax tenant screening criteria for homeless persons because they may have a poor or nonexistent credit history, may be unemployed, would not have a recent rental history, and/or may have a record of even minor criminal offenses, factors that can bar homeless persons from

qualifying for rental housing. Applications in response to the NOFA were due on September 20, 2013.

The NOFA also offered a limited-term Project-Based Rental Assistance (PBRA) and, as an extra incentive, an operating subsidy for each apartment or room housing homeless persons. Both PBRA and these operating subsidies are to be funded by the Place-Based Rapid Re-Housing Program, which is funded by the General Fund in the current (2013-2014) fiscal year.

The PBRA is targeted to residents of homeless encampments who do not meet the definition of the “chronically” homeless who are being targeted by the Housing 1000 Project spearheaded by Destination: Home. The targeted encampment residents will have less severe disabilities, if any, and are more likely to be employable after stabilization in housing, but will nonetheless be provided case management services to assist in achieving that stabilization. The expectation is that these individuals will become employed within 12 months after being housed, and within two years will be able to afford to pay rent at ELI or higher levels.

Abode Services submitted an application on behalf of HIP for ten of HIP’s properties located throughout the community. The application indicated that HIP would relax its standard tenant screening criteria for the homeless apartments or rooms in the single-family and multifamily dwellings so that homeless individuals would not be subject to the impediments that they could normally face in finding housing.

In addition to Abode’s application for the HIP properties, First Community Housing submitted a successful application for provision of ten ELI studio apartments for homeless individuals at its Creekview Inn property. The City Council approved a funding commitment for Creekview Inn at its May 20, 2014, meeting. In addition, InnVision submitted a proposal to fund its Hester Apartments and its Julian Street Inn; however, InnVision’s properties did not meet all the conditions of the NOFA and will not be recommended for funding.

ANALYSIS

Project

The 10 HIP properties include both apartments, for occupancy by families, as well as single-family and multifamily buildings in which each bedroom is rented to individuals, with shared living/dining/bath/kitchen spaces. The 10 properties are located in various locations throughout the City:

Council District	Address	Building Description	Occupancy
1	1059 Roewill Drive	Five 2-bedroom and one 3-bedroom apartments	Family
1	3825 Barker Drive	One 3-bedroom, three 2-bedroom apartments	Shared
5	247-249 Muirfield Drive	Two 4-bedroom duplex apartments	Shared

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6	1231 Minnesota Avenue	4-bedroom single-family rental house	Shared
8	2551 Sesame Court	6-bedroom single-family rental house	Shared
9	1713 Ross Circle	Four 2-bedroom apartments	Shared
9	1731 Ross Circle	Four 2-bedroom apartments	Shared
10	5629 Hoffman Court	Four 2-bedroom apartments	Shared
10	5668 Hoffman Court	Four 2-bedroom apartments	Shared
10	5684 Hoffman Court	Four 2-bedroom apartments	Shared

The proposed scope of rehabilitation varies property by property. Typical work items include: window replacements; roof replacements; replacement for kitchen cabinets, countertops and sinks; bath tub enclosures; water heater replacements; furnace replacements; and re-plumbing. Staff anticipates that the HHP funds will be fully expended within approximately eighteen months of the execution of the grant documents.

Eight of the ten properties have existing City loans and already have recorded affordability restrictions as required by Community Redevelopment Law. Two properties (on Muirfield Drive and Sesame Court) were acquired with loans from the California Department of Housing and Community Development; therefore, as redevelopment bond proceeds will be used for this rehabilitation project, the City's affordability restrictions will be recorded on those properties as well.

The rehabilitation grant will be made conditioned on the Project's completion of the rehabilitation scope as approved by Housing Department staff, and on HIP's provision of the required rental opportunities for homeless residents referred by the City for at least five years, including the relaxation of tenant screening criteria. Given the relatively short duration of the housing requirement, and given the complexity of financial security issues on a scattered site Project, the grant will be made unsecured. HIP will also be required to provide matched funding as stated in its NOFA application.

As a closing condition to the grant, Abode will amend its City affordability restrictions for its properties utilizing the shared supportive housing and amend its loan agreements so as to ensure ongoing affordability, compliance, and physical viability of the whole HIP portfolio. Staff will bring forward a separate action in August 2014 on the shared supportive housing restrictions for the City Council's approval.

Rental subsidies

Based on past experience with turnover rates at its properties, HIP expects that 31 of its apartments or rooms in shared-living buildings will become available for homeless individuals referred by the City, or its designee, over an 18-month period. It is not possible, however, to predict at which properties those vacancies will occur. For family apartments, the City would refer encampment residents who have been separated from their families, thereby providing opportunities for family reunification.

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The Place-Based Rapid Re-Housing Program—from which the PBRA and operating subsidies will come—will be funded for a period of one year by the Homeless Rapid Re-Housing appropriation in the General Fund in 2013-2014. Staff recommends that up to \$312,300 in Place-Based Rapid Re-Housing Program funds, of the total \$2,000,000 appropriated, be used to fund one year of PBRA and operating subsidy for this Project. Should funding in that City budget line item be included in the 2014-2015 Budget, the Project would receive an additional year of PBRA and operating subsidies.

The maximum ELI income for an individual occupying a room in a shared-housing arrangement is currently \$22,300 per year. The maximum cost for the combination of rent and utilities in such rooms is \$558 per month. In the Project's two- and three-bedroom family units, the maximum ELI incomes are currently \$28,650 and \$31,850 per year, respectively, with a maximum rent-plus-utilities cost of \$716 and \$796.

PBRA will fund the difference between 30% of the tenant's income or \$20, whichever is higher, and the ELI maximum housing cost (rent plus utilities). The monthly operating subsidy is the difference in rents set at 30% and 40% of AMI, which is approximately \$181 for rooms in shared-living dwellings, \$234 for a family two-bedroom apartment, and \$259 for a family three-bedroom apartment. Given the Project's unit mix, the needed amount of PBRA plus operating subsidy is \$312,300.

The HHP program is but one element of the strategy to address the objectives of the Place-Based Rapid Re-Housing Program. Separate from this approval, a contract with a service administrator to provide case-management and employment services to the homeless clientele and a contract with a subsidy administrator to manage the PBRA and operating subsidy parts of the strategy will also be heard at the City Council on June 17, 2014.

Prevailing Wages

As shown on the attached map, the 10 properties are scattered over a wide area. None of the properties has more than seven units. Ensuring compliance with prevailing wage obligations entails Public Works staff's tracking of contractors working on the project site on given days. Because of the logistical challenge in monitoring work on several different sites by many different subcontractors over several months, prevailing wage compliance on scattered site housing projects is quite challenging to administer. Given the scattered site nature of the Project, and given that the rehabilitation scope per location is relatively small—as compared to typical large public works projects that are subject to prevailing wages—an exemption from the City's prevailing wage policy is requested. Such an exemption would be similar to the City's last scattered site rehabilitation program, the NSP2 Dream Home program. Therefore, staff recommends that the Project be exempted from the City prevailing wage requirement.

EVALUATION AND FOLLOW-UP

The Housing Department posts periodic reports on the status of its subsidized construction projects on its website, www.sjhousing.org. If approved, the HIP rehabilitation project will be included in these reports.

POLICY ALTERNATIVES

The following alternative was considered in determining the actions recommended in this report:

Alternative #1: *Deny the recommended funding commitment.*

Pros: The funds being recommended could be used for other affordable housing projects.

Cons: The tax-exempt bond proceeds funding this conditional grant must be expended promptly, and homeless residents need to be housed as soon as possible.

Reason for not recommending: Rehabilitation of existing dwelling units is the quickest way to create housing for homeless individuals and households.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1,000,000 or greater. (Required: Website Posting)
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. (Required: E-mail and Website Posting)
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. (Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)

As Criterion 1 applies to this action, this Memorandum will be posted on-line for the City Council's meeting on June 17, 2014.

COORDINATION

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

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FISCAL/POLICY ALIGNMENT

The recommended action is consistent with the City's objective of ending homelessness, as stated in the City's *Five-Year Consolidated Plan FY 2010-15*, adopted by the City Council on May 4, 2010, and in the Santa Clara County-wide plan to end homelessness.

COST SUMMARY/IMPLICATIONS

The conditional grant of up to \$1,800,000 to Housing for Independent People for the rehabilitation of 10 properties will be funded by tax-exempt bond proceeds in the Multi-Source Housing Fund.

Separately, the Project's operating subsidy will be funded by the Homeless Rapid Re-Housing program, the administrative contract for which is being awarded in a separate Memorandum to be heard by the City Council on June 17, 2014. That subsidy is subject to the annual appropriation of funds.

BUDGET REFERENCE

The table below identifies the fund and appropriation proposed to fund the grant commitment recommended as part of this Memorandum.

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	2013-2014 Adopted Budget (Page)	Last Budget Action (Date, Ord. No.)
448	2074	Capital Grant Program	\$4,775,000	\$1,800,000	XI-73	06/18/2013, Ord. 29271

CEQA

Exempt, File No. PP13-108

/s/
LESLYE CORSIGLIA
Director, Housing Department

For questions, please contact Leslye Corsiglia, Director of Housing, at (408) 535-3851.

Attachment

ATTACHMENT 1

Site Map HIP's 10 Scattered Site Properties

