



# COUNCIL REPORT

**DATE:** March 14, 2023

**CATEGORY:** Consent

**DEPT.:** Community Development

**TITLE:** **Funding for Crestview Hotel Conversion to Permanent Affordable Housing**

## **RECOMMENDATION**

1. Find the Crestview Hotel rehabilitation project to be statutorily exempt from the California Environmental Quality Act pursuant to Health and Safety Code Section 50775.1.4.
2. Appropriate \$3.8 million in Rental Housing Impact Fees and Housing Impact Fees for the rehabilitation of the Crestview Hotel for permanent housing. (Five votes required)
3. Authorize the City Manager or designee to negotiate and execute the loan agreement(s) in an amount not to exceed \$9 million with Jamboree Housing Corporation (or approved affiliate), the affordable housing regulatory agreement(s) with Jamboree Housing Corporation (or approved affiliate), and other related documents relating to this allocation of funds for the rehabilitation of the Crestview Hotel for permanent housing.
4. Authorize the City Manager or designee to negotiate and execute amendments to the above-referenced loan agreement(s) and regulatory agreement(s) and other related documents as needed to effectuate the incorporation of expected Federal funding for the Crestview Hotel project and to offset the City Rental Housing Impact Fees and Housing Impact Fees funding.

## **BACKGROUND**

In January 2021, the City Council unanimously voted to partner with the County of Santa Clara to facilitate the acquisition and rehabilitation of the Crestview Hotel, located at 901 East El Camino Real, to meet various housing needs. Since that time, the County and City have worked together to advance the project, which has included the following key undertakings:

- Of the \$9 million City commitment to the project (pending Council approval of \$3.8 million as part of this Consent item), \$5.2 million of Community Development Block Grant (CDBG) and Home Investment Partnership Program (HOME) funds to the project have already been appropriated (\$3.7 million in April 2021 and \$1.5 million in April 2022, respectively).

- The County has allocated \$7 million in County Measure A funds to the project.
- The project was awarded \$16.7 million via the State's Project Homekey program.
- City staff participated in a developer selection process led by the County, and Jamboree Housing Corporation (Jamboree) was selected in June 2022 as the project developer.
- Since its selection, Jamboree has been working diligently to secure remaining financing needed for project feasibility and to refine the project plans.
- Jamboree has submitted their building permit application to the City for review and approval.
- The City has participated in six community meetings as well as numerous small group conversations with interested community members.

Due to the rising costs of construction and additional improvements to the property that will ensure the conversion of the hotel building addresses recent local lessons learned in converting hotel properties, approximately \$11.55 million is needed to close the remaining funding gap. The County has identified \$7.75 million in additional funding available for the project, and the Board of Supervisors will be considering this allocation during the Board's March 14, 2023 meeting. This is the maximum additional funding that the County is able to provide, according to County staff. City staff has been in discussions with the County and Jamboree on the remaining \$3.8 million gap to identify other potential funding sources. At this time, there are no other potential funding opportunities identified.

Given tight project timelines, the County has requested that the Department of Housing and Community Development (HCD) extend the project completion deadline to April 2024 to provide additional time for the developer to begin construction and complete the hotel conversion. If approved, securing the additional funding would enable the developer to initiate construction in April 2023 with a projected completion date of April 2024, subject to HCD approval of the extension request.

Given the lack of other funding sources at this time and the short time frame to complete the Crestview Hotel rehabilitation due to Project Homekey deadlines, staff recommends that the City Council appropriate \$3.8 million from the City's Rental Housing Impact Fee and Housing Impact Fee funds to close the funding gap. Taking this action will close the remaining funding gap, allow construction to begin as soon as possible, meet Homekey deadlines, and make 48 affordable units available to the community by 2024, including:

- Seven (7) units for formerly homeless individuals and families;

- Thirteen (13) units for transition-aged youth (youth ages 16 to 25 exiting the child welfare system); and
- Twenty-eight (28) units for households at risk of becoming homeless.

Once the funding gap is closed, the loan agreements and related documents can be executed, loan closings can commence, and construction can begin shortly thereafter, with an estimated start date in April 2023. The City will enter into the following agreements associated with this project:

- CDBG, HOME, and City Regulatory Agreement(s)
- CDBG, HOME, and City Loan Agreement(s)
- CDBG, HOME, and City Promissory Notes
- CDBG, HOME, and City Deeds of Trust

### **ANALYSIS**

The City Council is being asked to appropriate \$3.8 million in Rental Housing Impact and Housing Impact Funds. The funding would be provided in the form of a deferred low-interest residual receipt loan, similar to other 100% affordable housing projects funded by the City. Currently, the City has a balance of approximately \$21,315,000 in Housing Impact fee funds available. This balance already reflects the amounts allocated for the two newest projects for which Council has appropriated funding (Linda Vista and 96 West El Camino Real). Therefore, there is sufficient available balance to provide the proposed funding for the Crestview Hotel.

Staff anticipates that much of the \$3.8 million can be replaced with approximately \$2.9 million composed of the following Federal funds:

- Approximately \$750,000 in CDBG and \$1.4 million in HOME funds that are currently proposed to be allocated to the Crestview Hotel as part of the City's Annual Action Plan process. These funds cannot be designated until the Annual Action Plan process is completed and, if the funds remain part of the City's Annual Action Plan, once the grant funds become available in July.
- \$750,000 allocated by Congresswoman Anna Eshoo in Community Project Funding (CPF). Staff will take the necessary steps to draw down these funds in the coming months.

A complete summary of the City funding plan for Crestview is included in Table 1 below:

**Table 1: Crestview Funding Plan**

Funding Source	Previously Appropriated Funds	Additional Appropriation (pending approval)	Replacement of Funds (Pending Approval - July 2023)	Final City Funding Totals
<b>CDBG</b>	\$2.8 million	N/A	\$750,000	<b>\$3.55 million</b>
<b>HOME</b>	\$2.4 million	N/A	\$1.4 million	<b>\$3.8 million</b>
<b>Federal CPF</b>	N/A	N/A	\$750,000	<b>\$750,000</b>
<b>City Housing Impact Fees</b>	N/A	\$3.8 million	-\$2.9 million (returned to City Housing Impact Fee Fund)	<b>\$900,000</b>
<b>TOTAL</b>	<b>\$5.2 million</b>	<b>\$3.8 million</b>		<b>\$9.0 million</b>

The Federal funds listed above will not be available and cannot be formally allocated until later this year. Additionally, construction cannot commence until all funding gaps have been addressed. Due to the timing of the availability of these Federal funds and Project Homekey deadlines, the City will need to commit its housing funds now to ensure project viability. If Council approves the funding, staff will immediately begin working with the County and Jamboree to execute the loan and other agreements, close the loans, and finalize the funding. Once the Federal funds become available and offset the City's commitment of its housing funds (if Council approves the additional \$3.8 million for Crestview), the net impact to the City's housing fund balance will be approximately \$900,000.

When the Federal funds become available, staff anticipates amending executed loan, regulatory, and other related agreements to replace a portion of the local affordable housing funds at that time. No change in construction scope is anticipated, and this action does not change the required Federal environmental assessment conducted last year.

As discussed during the August 30, 2022 Study Session, the City does anticipate a funding gap to fund the City's affordable housing pipeline, particularly its future land dedication sites. Because it is anticipated that future Federal funding can offset much of the \$3.8 million as well as efforts to secure additional external housing funds and partnerships, staff does not anticipate a longer-term impact on the City's affordable housing pipeline by supplying these additional necessary funds for the Crestview Hotel project.

## **ENVIRONMENTAL REVIEW**

Assembly Bill (AB) 83 (2020) established a statutory exemption from the California Environmental Quality Act (CEQA) for activities funded by Homekey subject to specified requirements, including that prevailing wages be paid and a skilled and trained workforce be utilized. The statutory exemption was extended by AB 140 (2021) until July 1, 2024 and is codified in Health and Safety Code Section 50775.1.4. The Crestview Hotel rehabilitation to permanent housing project meets the project eligibility requirements of the exemption.

Title 1 of the National Environmental Policy Act (NEPA) requires that projects using Federal funds trigger implementation of NEPA. The project has completed the NEPA process. Staff will continue to work with the United States Department of Housing and Urban Development to meet all future requirements related to sources of funding added to the project.

## **FISCAL IMPACT**

There is no fiscal impact to the General Fund. Staff recommends appropriating \$3.8 million in Rental Housing Impact and Housing Impact fees, and there is sufficient funding available in these funds. As discussed above, staff estimates that \$2.9 million in Federal funding will offset the \$3.8 million in Rental Housing Impact and Housing Impact fees for a net amount of \$900,000 after the offsets have been effectuated.

## **ALTERNATIVES**

1. Do not appropriate \$3.8 million in additional funding for the Crestview Hotel.
2. Provide direction on alternative funding amounts/sources.
3. Provide other direction.

**PUBLIC NOTICING**

Agenda posting. Information about this meeting was publicized to the City's Crestview Hotel Interest List.

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