



## Legislation Text

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**File #:** 23-394, **Version:** 1

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Adopt a Resolution Approving a Ground Lease with Rehabilitation Grant and Operating Subsidy Agreement with Housing Consortium of the East Bay, Inc., to Develop and Operate 555 Lewelling as an Interim Homeless Shelter and Navigation Center

### **COUNCIL PRIORITY**

- Housing and Homelessness
- Race and Equity Initiatives

### **SUMMARY**

The City is partnering with Housing Consortium of the East Bay, Inc., (HCEB), which will serve as developer and property manager of the proposed interim homeless shelter/navigation center, while the City will remain the property owner. The City jointly applied with HCEB for State Project HomeKey Round 3 in early June 2023 to acquire, develop and operate the proposed Lewelling Interim Housing at 555 Lewelling Boulevard as an interim homeless shelter and navigation center (the Nimitz Motel is currently located on the property).

### **RECOMMENDATIONS**

Staff recommends City Council adopt the Resolution approving a ground lease with rehabilitation grant and operating subsidy agreement with HCEB to develop and operate 555 Lewelling as an interim shelter and navigation center.

### **BACKGROUND/ANALYSIS**

The City is entering into both a ground lease and operating subsidy agreement with HCEB. The ground lease memorializes the property ownership role of the City and the role of HCEB as the developer and property manager. The operating subsidy agreement establishes the City's grant funding to HCEB for the proposed renovations and annual operating/services for the shelter/navigation center. As property manager, HCEB will contract directly with the local homeless and domestic violence services nonprofit, Cornerstone Community Development Corporation/ Building Futures to be the on-site supportive services provider, along with any other as needed nonprofit service providers.

#### Ground Lease

The ground lease establishes the rental period, maintenance conditions, and rehabilitation grant funding from the City to HCEB. Key terms of the ground lease include:

- Five (5) year lease term.

- If needed, automatic one year extension after Year 5. Upon mutual agreement, the lease shall not exceed 10 years. The City intends to eventually convert the interim shelter/navigation center into a higher density, permanent supportive housing development, but not earlier than five years from initial operation, per Project Homekey regulations.
- Annual rent to the City will be \$1.
- Lessee (HCEB) shall maintain the property in good condition during the term of the lease.
- City rehabilitation grant to HCEB for predevelopment and hard and soft construction costs will not exceed \$5.2 million, which is the estimated total renovation cost. See “Financial Impacts” section below for sources of State and/or federal funds for the \$5.2 million. There is no impact to the General Fund for the \$5.2 million grant.

### Operating Subsidy Agreement (OSA)

The OSA memorializes specified grant payments from the City to HCEB as necessary for the costs of operations and supportive services for the interim shelter and navigation center. Key terms of the OSA include

- Term of the OSA shall be five (5) years, which is the State mandated minimum period for Homekey grantees to demonstrate operational feasibility.
- HCEB shall maintain an operating reserve during the term of the OSA.
- The maximum annual City operating/services grant shall not exceed \$9.6 million over 5 years. Year 1 annual operating/services budget is projected to be approximately \$2.2 million due to about \$350,000 in start up costs, while Years 2 through 5 will annually average about \$1.9 million (or \$7.4 million over 4 years). See “Financial Impacts” section below for sources of local, County, State and/or federal funds for the \$9.6 million. The only impact on the General Fund is that the City is providing a \$7.1 million operating/services subsidy guaranty over 5 years or about \$1.42 million annually from General Funds, which the City Council approved on June 5, 2023 (Resolution No. 23-058).

### Previous Actions

- February 9, 2021 - City Council Work Session on proposal for a new navigation center and supportive housing for the homeless.
- March 21, 2022 - City Council approved purchase and sale agreement for acquisition of the Nimitz Motel at 555 Lewelling Blvd.
- April 18, 2022 - City Council approved submittal of application to State Project HomeKey 2.0 Round.
- July 18, 2022 - Staff presentation on Project HomeKey 2.0 application.
- October 17, 2022 - City Council approved extension of the PSA to March 15, 2022.
- March 6, 2023 - City Council approved final extension of the PSA to August 30, 2023 (with option to exercise two 30-day extensions to October 30, 2023).
- March 20, 2023 - City Council approved allocation of surplus funds to projects/activities including up to \$3,200,000.00 as bridge funding to acquire the Nimitz Motel if HomeKey 3.0 funding has not been released to the City by the close of escrow in Fall 2023.
- June 5, 2023 - City Council approved the submittal of Project HomeKey Round 3 application to State HCD.

## **Applicable General Plan Policies**

- **Goal 58: Special Needs Populations** - Proactively address the special housing needs of the community, including seniors, disabled individuals, single parents, large families, and the homeless.
  - Action 58.09-B Transitional/Permanent Supportive Housing - Continue to provide financial support to develop and operate supportive and transitional housing facilities, including those located in nearby communities that are accessible to persons who are homeless or at risk of homelessness in San Leandro.
  - Policy 58.11 Service Enriched Housing - Promote social services and programs in affordable housing projects that assist lower-income households in obtaining the financial resources needed to increase and stabilize their housing choices in the City.

## **Environmental Review**

The ground lease and operating subsidy agreement are exempt from California Environmental Quality Act (CEQA) per CEQA Guidelines section 15301 because the project contemplated by the proposed agreements consists of only minor alternations to existing structures. No new structures will be constructed or expanded as part of the project.

Prior to close of escrow, the City will complete required federal National Environmental Protection Act (NEPA) environmental review for the acquisition and rehabilitation of the Property to release the use of the City's federal Community Development Block Grant (CDBG), Home Investment Program (HOME) and HOME-ARPA (via Alameda County) funding for acquisition, rehabilitation and/or relocation related to the proposed project at 555 Lewelling.

## **Legal Analysis**

The City Attorney's Office reviewed and approved as to form this staff report and resolution and drafted the ground lease and operating subsidy agreement.

## **Financial Impacts**

For the \$5.2 million Rehabilitation Grant under the Ground Lease, the City expects the funding sources to be primarily State HomeKey and AB 102 (Budget Act of 2023) funding, although the City reserves the right to use other available local, State, and federal funds available to the project for rehab, operations and/or services as needed per Attachment D (Summary of Funding Sources). The Rehabilitation Grant will have no impact on the General Fund.

For the \$9.6 million Operating Subsidy Grant under the Operating Subsidy Agreement, the City expects the funding sources to be local, County, State (HHAP and HomeKey) and/or federal. The City has committed to a \$7.1 million operating subsidy guaranty over 5 years from General Fund or \$1.42 million annually to fill any annual funding gap. See Attachment D (Summary of Funding Sources).

## **ATTACHMENTS**

Attachment A - Resolution of the City of San Leandro City Council

Attachment B - Ground Lease between City and HCEB

Attachment C - Operating Subsidy Agreement between City and HCEB

Attachment D - Funding Sources for Lewelling Interim Housing

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