



# CITY COUNCIL STAFF REPORT



July 25, 2023

## ITEM TITLE

Property Acquisition: Authorizing the Purchase and Rehabilitation of the Palomar Motel for Conversion into Permanent Supportive Housing

**Report Number:** 23-0188

**Location:** 1160 Walnut Avenue

**Department:** Housing and Homeless Services

**Environmental Notice:** The Project is categorically exempt from the California Environmental Quality Act (CEQA) pursuant to Section 15301 (Existing Facilities), Section 15326 (Acquisition of Housing for Housing Assistance Programs), and Section 15061(b)(3) (Common Sense Exemption).

## Recommended Action

Adopt resolutions: A) Authorizing the City Manager, or designee, to negotiate terms and conditions, dedicate remaining Emergency Rental Assistance 2 funds, and execute all documents necessary to purchase the Palomar Motel for conversion (acquisition and rehabilitation) into permanent supportive housing; and B) Authorizing application to, and participation in, the State of California Homekey Program.

## SUMMARY

Providing housing solutions for unsheltered individuals has been a key focus of the City of Chula over the past few years, as evidenced by the recent opening of the “Chula Vista Village at Otay”, the City’s first emergency bridge shelter. This emergency housing facility provides more than 60 temporary beds for individuals experiencing homelessness as a step toward self-sufficiency. Moving individuals into long-term stable housing can be challenging given the magnitude of barriers that exist for chronically homeless individuals, many of whom require long-term or even lifelong supportive services.

This item will authorize the City Manager or designee to negotiate the purchase of a 31-unit motel for conversion into permanent supportive housing (PSH), dedicate remaining Emergency Rental Assistance 2 (ERA2) funds towards a good faith down payment, submit a grant application for Homekey Program (Homekey) funds, and execute all necessary documents towards acquisition and rehabilitation of the current Palomar Motel located in southwestern Chula Vista to provide new PSH units for persons currently experiencing homelessness.

## **ENVIRONMENTAL REVIEW**

The Director of Development Services has reviewed the proposed Project for compliance with the California Environmental Quality Act (CEQA) and has determined that the Project qualifies for a Categorical Exemption pursuant to State CEQA Guidelines Section 15301 (Existing Facilities), Section 15326 (Acquisition of Housing for Housing Assistance Programs), and Section 15061(b)(3) (Common Sense Exemption). This is because the action to acquire the motel for the purpose of providing PSH would not result in a significant effect on the environment, create a cumulative impact, damage a scenic highway, or cause a substantial adverse change in the significance of a historical resource. Therefore, no further environmental review is required.

## **BOARD/COMMISSION/COMMITTEE RECOMMENDATION**

The Housing and Homeless Advisory Commission will be provided with an update at their next meeting.

## **DISCUSSION**

In late 2022, the City was contacted by representatives of the Palomar Motel at 1160 Walnut Avenue, Chula Vista, CA 91911, indicating that the ownership was interested in the potential sale of the property and desired to work with the City to provide housing for homeless individuals. Since that time, staff has been conducting due diligence to assess the feasibility of providing permanent supportive housing on the site. Work efforts to date include an initial appraisal of the property, a Phase I Environmental Analysis, and a Facility Conditions Report. In addition, a variety of funding options have been reviewed.

While the opening of the City's emergency bridge shelter is an important step in moving unsheltered persons toward self-sufficiency, it does not provide a long-term solution for those that are ready for permanent housing and in need of a greater level of ongoing services and support. According to the 2023 Point in Time Count, 318 individuals were reported as unsheltered in Chula Vista. Various sources estimate up to 40% of homeless individuals may have mental health issues, which can be a large impediment to remain in place in stable housing. A recent report indicates there are 6,865 PSH beds in the San Diego County region, with only 30 of them in the South Bay Region.

Given the great need for housing that provides ongoing services, the current availability of California Department of Housing and Community Development (HCD) Homekey funds, and remaining ERA2 funds, staff has determined that the best use for the Palomar Motel would be to convert the property for PSH.

### **Permanent Supportive Housing (PSH)**

PSH is an intervention that combines affordable housing assistance with voluntary support services to address the needs of chronically homeless people. The services are designed to build independent living and tenancy skills and connect people with community-based health care, treatment, and employment services. Investments in PSH have historically helped decrease the numbers of individuals experiencing chronic homelessness. In addition to ending homelessness for people who are chronically homeless, research has demonstrated that PSH can increase housing stability and improve health.

PSH supports individuals at or below 50% area median income (very-low income), a difficult and needed housing segment to meet Regional Housing Needs Assessment goals in the 2021-2029 Chula Vista Housing Element.

The acquisition and conversion of the Palomar Motel is a significant step forward in the City's effort to address homelessness through supportive assistance that combines on-going rental assistance with individualized services.

### **Existing Palomar Motel**

The Palomar Motel property, located at 1160 Walnut Avenue, Chula Vista, CA 91911, consists of two parcels. The primary property (APN 6170602000) is 0.85 acres and contains a u-shaped 1 & 2-story, limited-service lodging facility built in 1946 with 31 single occupant rooms, a managers suite, laundry facilities and a storage room. The property is in good condition, with several of the building's original architectural features restored or copied.

The second parcel (APN 6170602100) is 0.32 acres, unimproved, and currently rented for vehicle storage on a month-to-month lease with a towing company. It is the City's intent to retain the current lease until such time as the City can secure additional funds to improve the lot (proposed Phase 2 of the project) and provide a safe parking lot for homeless individuals currently living in their vehicles or fill another housing gap for chronically homeless individuals. If a safe parking lot was developed, it would follow similar operating procedures as the emergency shelter, in that it would provide a temporary secured overnight parking area for those that were vetted by the City's Homeless Outreach Team (HOT) and are in process of securing a permanent housing solution.

### **Acquisition & Rehabilitation Funding**

#### *Emergency Rental Assistance 2 (ERA2) Program funds*

In February 2023 the City received a final reallocation of ERA2 funds from the U.S. Treasury in the amount of \$67,401.64. Of this amount, the City has \$65,996.64 remaining after final administrative expenses were paid out to SBCS for the Emergency Rental Assistance Program (ERAP). These funds were appropriated on May 23, 2023 by Resolution 2023-061.

While initial rounds of funding were restricted to housing stability programs to enable households to obtain or maintain housing and impacted by the COVID-19 pandemic, ERA2 allow for a greater range of uses, including the construction or rehabilitation of affordable housing projects to serve very low-income families.

It is staff's intent to utilize the remaining ERA2 funds for good faith down payment on the property.

#### *American Recovery Program Act (ARPA) funds*

With the launch of the Coronavirus State and Local Fiscal Recovery Funds, eligible jurisdictions have been able to bolster their response to the COVID-19 emergency and its economic impacts, and, through ARPA funding to support the immediate pandemic response, provide for basic emergency needs, bring back jobs, and lay the groundwork for a strong and equitable recovery. The Treasury has launched much-needed relief to more specifically:

- Support urgent COVID-19 response efforts to continue to decrease spread of the virus and bring the pandemic under control;
- Replace lost public sector revenue to strengthen support for vital public services and help retain jobs;
- Support immediate economic stabilization for households and businesses; and
- Address systemic public health and economic challenges that have contributed to the inequal impact of the pandemic on certain populations.

As will be further described in the companion ARPA item following this (Item 8.2), staff is proposing to utilize up to \$7 million in ARPA funds towards the acquisition of the property and as match for the Homekey grant application. Programming an additional \$6 million in ARPA funding for renovation of the site is also proposed in Item 8.2 (total of \$13 million in ARPA funds to be programmed for the acquisition and renovation of the Project), should the City be unsuccessful in its application for Homekey funds. Staff will return to Council to report back and take any necessary further actions upon notice from HCD regarding our Homekey application.

### *Homekey Program (Homekey)*

HCD announced the availability of approximately \$736 million of Homekey grant funding through a Round 3 Notice of Funding Availability (NOFA) in late March 2023. Homekey is an opportunity for state, regional, and local public entities to develop a broad range of housing types, including but not limited to hotels, motels, hostels, single-family homes and multifamily apartments, adult residential facilities, manufactured housing, and to convert commercial properties and other existing buildings to permanent or interim housing for the target population.

Homekey funds are targeted for persons experiencing homelessness or at risk of homelessness, and who are, thereby, disproportionately impacted by and at increased risk for medical diseases or conditions due to the COVID-19 pandemic or other communicable diseases. Individuals and families who are experiencing homelessness or who are at risk of homelessness, is defined by the McKinney-Vento Homeless Assistance Act (Part 578.3 of Title 24 of the Code of Federal Regulations).

Under Homekey, a variety of interim and permanent housing solutions to serve the target population can be undertaken:

1. Acquisition or rehabilitation, or acquisition and rehabilitation, of motels, hotels, hostels, or other sites and assets, including apartments or homes, adult residential facilities, residential care facilities for the elderly, manufactured housing, commercial properties, and other buildings with existing uses that could be converted to permanent housing or interim housing, subject to any limitations set forth in this NOFA, including those provided in Section 301.
2. Master leasing of properties for non-congregate housing.
3. Conversion of units from nonresidential to residential.
4. New construction of dwelling units.
5. The purchase of affordability covenants and restrictions for units.
6. Relocation costs for individuals who are being displaced because of the Homekey Project.
7. Capitalized operating subsidies for units purchased, converted, constructed, or altered with funds provided pursuant to HSC section 50675.1.3

Since the City recently opened the bridge shelter, an application for PSH through acquisition and rehabilitation (#1) is the most needed and competitive housing solution at this time.

It is expected that Homekey fund awards will be announced approximately 90 days after the application date of July 28, 2023. Acquisition, rehabilitation, and/or construction must be completed 12 months from the date of award letter, with full occupancy being achieved by 15 months from date of the award letter. Studio or one-bedroom units will receive a baseline amount of \$150,000 per door and beyond the applicable baseline amount, applicants may leverage a 1:1 local match to provide up to \$100,000 in additional funds per door. All Permanent Housing Projects must be restricted with a 55-year Affordability Covenant and restrict the

use, operation, occupancy, and affordability of the Project in accordance with all applicable requirements of the Homekey Program.

Homekey is a preferred funding source for the rehabilitation of the Palomar Motel as it can be matched with ARPA acquisition funds and assists in meeting goals to serve the homeless population. An application for up to \$7 million in funds is anticipated to be submitted towards the Project.

### **Proposed Improvements and Ongoing Operations**

Renovation plans include the conversion of motel units into long-term housing units, a new community space for property management offices, onsite services, case management, and a lounge area for residents. Each of the 31-units would be fully renovated and equipped with a full bathroom and kitchenette. In addition, the property would be modified to be compliant with the American Disabilities Act (ADA). Final improvements and funding needs are still being assessed.

The City is currently soliciting proposals for development partners through a Request for Qualifications (RFQ), to work with the City to develop and operate PSH. It is expected, should the authorization occur this evening to purchase the Palomar Motel, the City will issue a Request for Proposals (RFP) to the short-listed on-call development partners specific to the Palomar Motel in order to finalize funding and operational standards for the PSH.

### **Conclusion**

While the City was not actively seeking to acquire a motel for conversion into PSH, staff is continually looking for opportunities to address critical gaps in housing options throughout the city for all residents. In particular, due to the shortage of PSH beds in the South Bay, the recent opening of the Chula Vista Village at Otay, timing of available funds for pandemic related impacts, and grant opportunities to serve very-low income persons experiencing homelessness, the acquisition and rehabilitation of the Palomar Motel for PSH is a needed and timely opportunity.

This authorization will enable the City Manager or designee to continue working with the property owner to negotiate the purchase of the Palomar Motel for PSH, utilizing \$65,996.64 in ERA2 funds as a good faith down payment, up to \$7 million in ARPA funds for acquisition, and up to \$7 million in Homekey funds for rehabilitation. It further authorizes the submittal of the Homekey Program fund application for up to \$7 million and ARPA funds up to \$6 million for rehabilitation if the Homekey submission is not successful.

### **DECISION-MAKER CONFLICT**

Staff has reviewed the property holdings of the City of Chula Vista City Council members and has found no property holdings within 1,000 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(7) or (8), for purposes of the Political Reform Act (Cal. Gov't Code §87100, et seq.). Staff is not independently aware and has not been informed by any Chula Vista City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

### **CURRENT-YEAR FISCAL IMPACT**

This action does not request appropriation but seeks authorization to spend previously appropriated ERA2 funds as well as American Recovery Program Act (ARPA) funds, which will be reallocated via companion

Item 8.2, to be presented to City Council at tonight's meeting. If Homekey or other funds are received for the rehabilitation, staff will return to the City Council to amend the budget to appropriate such funds and reprogram ARPA funding accordingly.

#### **ONGOING FISCAL IMPACT**

The City will continue to work to secure alternative funding sources for the operation and maintenance cost of the property. The ongoing operation and maintenance costs will either be included in the fiscal year 2024-25 budget development process or separate City Council action.

#### **ATTACHMENTS**

None.

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