



## Housing and Homelessness Advisory Commission

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February 24, 2025

Item No. 5.2

**ITEM TITLE:** Housing Successor Agency: Appropriation of Funds for Palomar Motel, and Updates

**Location:** 1160 Walnut Avenue

**Recommended Action:** Commission provide an advisory recommendation to City Council on the appropriation of Housing Successor Agency Low and Moderate Income Housing Asset Funds for Fiscal Year 2024-25, in the amount of \$3.0 million for the rehabilitation of the Palomar Motel.

### SUMMARY

The City of Chula Vista (City) acquired the Palomar Motel, located at 1160 Walnut Avenue, in 2023 with the intent to rehabilitate the motel structure and convert it into a development providing Permanent Supportive Housing (PSH) for formerly homeless households (the “Project”).

Staff now proposes to appropriate \$3.0 million in Low and Moderate Income Asset Housing Fund (Housing Fund) funds for the Project, administered by the Housing Authority in its capacity as the Housing Successor Agency.

Several other actions to prepare for the Project’s rehabilitation will also be brought to Council, but do not require an advisory recommendation from the Housing & Homelessness Advisory Commission. These include: (1) reallocating \$5.0 million previously budgeted in the Capital Improvement Projects (CIP) fund for the Project to other purposes; (2) authorizing the City to enter into a Leasehold Disposition and Development Agreement and ground lease with the Project’s developer, Wakeland Housing and Development Corporation, or an affiliate (Wakeland); (3) transferring ownership of the motel structure (but not the land) to Wakeland; and (4) seeking authorization to re-apply with Wakeland for the current Homekey+ Program administered by the California Department of Housing and Community Development (HCD). These are all necessary transactions to secure the Homekey+ funds and facilitate the rehabilitation and long-term operation of the Project.

### ENVIRONMENTAL REVIEW

The Project is categorically exempt from the California Environmental Quality Act pursuant to Section 15301 (Existing Facilities), Section 15326 (Acquisition of Housing for Housing Assistance Programs), and Section 15601(b)(3).

## DISCUSSION

### **Motel Acquisition and Rehabilitation**

The City acquired the Palomar Motel on October 6, 2023, for \$6.2 million, authorized by Resolution No. 2023-108, adopted on July 25, 2023. The Project site consists of two parcels totaling 1.17 acres, containing the motel structure and unimproved land, a portion of which is currently being leased to a towing company. It is the City's intent to retain the current lease on the second parcel until a later date.

The City intends to rehabilitate the motel structure and convert it into Permanent Supportive Housing (PSH) for formerly homeless households. It is anticipated that 27 units of PSH will be provided at the site, with additional space set aside for supportive services and an onsite manager's unit. The units will be retrofitted with kitchenettes and other upgrades to better accommodate long-term residency.

Kitchell Corporation was commissioned to provide a Feasibility Study Draft Report to identify the scope of needed repairs and determine a cost estimate. The full cost of carrying out all repairs and improvements was estimated at just over \$8.1 million. The rehabilitation scope includes accessibility upgrades to comply with the Americans with Disabilities Act (ADA); stairway replacement; new fire sprinklers and other life safety improvements, and major upgrades to the plumbing, electrical, HVAC, and other systems. Wakeland is currently conducting a more detailed analysis of the Project with an architect, environmental consultant, and engineer to refine the cost estimate.

Once completed, all units at the Project would be restricted to Very Low or Extremely Low Income residents, with the exception of one manager's unit. Rents would be restricted as affordable to individuals earning up to 30% or up to 50% of the Area Median Income, as determined annually by HCD. The Project would have an onsite property manager and 1.5 Full Time Equivalent (FTE) services staff to provide case management and other wraparound services at the Property.

### **Housing Fund Loan**

The funding scenario for the Project has evolved over time. Resolution No. 2023-108, adopted on July 25, 2023, dedicated up to \$13.0 million in total funding towards the acquisition and rehabilitation of the Project from the American Rescue Plan Act (ARPA) fund. Of these ARPA funds, nearly \$5.28M was used to acquire the Project along with \$919,612 in federal Community Development Block Grant (CDBG) funds, with the balance held for holding costs of the land and rehabilitation. The remaining ARPA funds were later replaced with City Capital Improvement Program (CIP) funds by Resolution No. 2024-133 and reduced by Resolution No. 2024-263. The City and Housing Authority, in its capacity as Housing Successor Entity, now propose to replace \$5.0 million in remaining CIP funds with \$3.0 million in Low and Moderate Income Housing Asset Fund (Housing Fund) funds.

The Housing Authority, acting in its capacity as Successor Housing Entity to the Redevelopment Agency of the City of Chula Vista, oversees the Housing Fund. Under state law, Housing Successor Entities may not accumulate an excess balance of funds indefinitely, as defined by a formula looking back ten years (the Excess Surplus). The Housing Fund currently has an Excess Surplus of \$7,092,093 which must be committed on or before June 30, 2025. The Housing Fund is also subject to state requirements with respect to maximum income thresholds and age requirements (i.e., only a portion of assisted units may be set aside for seniors.) The Project satisfies all of the eligibility criteria for Housing Fund expenditures.

The funds would be committed through a loan to Wakeland to carry out the rehabilitation work. The loan would be a “residual receipts” loan, meaning that repayments would be made annually only to the extent that operating revenues exceed expenses. Any remaining outstanding balance would be due in full at the end of the term, expected to be 55 years. (This is a typical loan structure for affordable housing developments.) This loan will make the Project more competitive for additional funding from the Homekey+ Program and other funding programs and would help satisfy the Excess Surplus requirements for the Housing Fund imposed by the state. Most of the remaining balance of Excess Surplus funds will be committed through a separate action on this agenda.

### Other Actions

Staff will also seek Council approval for other actions to reallocate the CIP funds previously budgeted for the project, formalize its relationship with Wakeland as the developer and operator, transfer ownership of the motel structure to Wakeland, and apply to HCD’s Homekey+ Program to complete the Project’s financing. These actions are described in more detail below.

### **Reallocating CIP Funds**

After acquisition of the Project, holding costs to date, and Council action through Resolution No. 2024-263, the remaining balance in the CIP (GGV0270 - Palomar Motel Acquisition Convert) is \$5,284,245. Staff will seek Council approval to transfer \$5.0 million to the Housing Authority fund to be held for operations of the City’s emergency bridge shelter, Chula Vista Village at Otay (the “Village”). The remaining balance of \$284,245 will provide ongoing security and associated holding costs of the second parcel and Project until fully developed.

### **Leasehold Disposition and Development Agreement, Conveyance, and Ground Lease**

On February 20, 2024, via Resolution No. 2024-031, Wakeland was selected through a competitive process to serve as the developer and long-term operator of the project. Wakeland would oversee the ongoing management and operations of the Project in coordination with a contracted property management firm. Wakeland has a strong track record in providing PSH, as demonstrated by its 96% housing retention rate and 96% service participation rate for its supportive housing residents. At this time, staff proposed to enter into a Leasehold Disposition and Developer Agreement (LDDA) with Wakeland. This agreement would provide a general framework for the transactions to be executed with Wakeland with respect to the Project. A binding agreement with the Project co-applicant is a necessary precondition for securing Homekey+ funds as well as project-based vouchers (PBVs), Veterans Affairs Supportive Housing (VASH) vouchers, and other funding. The LDDA would be in effect for a maximum duration of three years, subject to two eighteen-month extensions in the City’s sole discretion.

Once the Project has secured all necessary financing and building permits, and is prepared to begin the rehabilitation work, the City would transfer ownership of the improvements (i.e., the motel structure) to Wakeland and enter into a long-term ground lease. The transfer and ground lease would both be for a nominal sum of \$1 for the acquisition price and \$1 per year in annual rent. As the developer, Wakeland has business, legal, and tax reasons for desiring to own the structure it is completing work on. If the City were to retain ownership of the improvements, it may also trigger costly additional building upgrades as a publicly owned facility. The City will continue to retain ownership of the land itself. The lease term will be at least 65 years, as required by HCD’s regulations for Homekey+ and other programs. In a highly unlikely worst-case scenario of a default by Wakeland, the City would be able to regain possession of the improvements and would be free to manage it directly or facilitate a transfer to a new operator.

## **Homekey+ Program**

Homekey was launched by HCD in the wake of the COVID-19 pandemic to convert motels and other housing types to permanent or interim housing for homeless persons. Homekey projects are implemented with PSH principles, which is a best-practice intervention for addressing homelessness that combines permanent, subsidized housing with voluntary, wraparound supportive services such as mental health and substance abuse treatment.

The City applied for funding in the third Homekey round on behalf of the Project, pursuant to Resolution No. 2023-109, but did not yet have ownership of the site and was not competitive enough to secure a funding award. Since then, the City has taken significant steps to prepare for the rehabilitation and increase its likelihood of success in future funding rounds, including acquiring the Property, commissioning a physical needs analysis, and selecting a developer co-applicant. The City passed Resolution No. 2024-031 on February 20, 2024 authorizing application to an anticipated Round 4 of the Homekey Program. HCD did not ultimately release a Homekey Round 4, so the City was unable to apply as authorized.

On December 20, 2024, Wakeland applied for an allocation of Project-Based Vouchers (PBVs) and Veterans Affairs Supportive Housing (VASH) vouchers from the County of San Diego. In addition to making the Project more competitive for Homekey funds, these vouchers would be a critical source of long-term operating revenue, ensuring that the Project can continue to provide housing and services without ongoing City funding. Finally, in January 2025, HCD opened the application window for the Homekey+ Program, an updated version of Homekey. The revised program includes an updated template resolution to be adopted by local jurisdiction co-applicants. Staff will bring a resolution before Council that closely mirrors the template resolution provided by HCD.

If successful, the Homekey+ Program would provide up to \$10 million in critical funding for the rehabilitation and operation of the project. (Wakeland and City staff expect to apply for roughly \$8.4 million in funds but are including a cushion in the instance that our financial analysis changes.)

## **DECISION-MAKER CONFLICT**

Staff has reviewed the property holdings of the Housing and Homelessness Advisory Commission 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 Housing and Homelessness Advisory Commission member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

*Staff Contact: Brian Warwick, Housing Manager*