



CITY OF OAKLAND

AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Shola Olatoye
Director, HCCD

SUBJECT: Acquisition And Rehabilitation the Inn
at Temescal

DATE: August 25, 2020

City Administrator Approval 

Date: **Aug 26, 2020**

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution:

(1) Authorizing The City Administrator To Apply For, As A Local Agency Partner, Up To \$3.15 Million Of Funds From The California Department Of Housing And Community Development Under The Homekey Program (Homekey Funds);

(2) Accepting And Appropriating Up To \$3.15 Million In Homekey Funds, As A Local Agency Partner, For The Acquisition Of The Inn At Temescal By Operation Dignity And Danco Communities (Development Partner) To Provide Permanent Affordable Housing To Homeless Veterans;

(3) Allocating, As A Local Match To The Homekey Funds, Up To \$1.05 Million Of Funds From Measure KK For The Acquisition And Rehabilitation Of The Inn At Temescal By Development Partner; And

(4) Awarding A Grant Agreement To Development Partner, In An Amount Not To Exceed \$4.2 Million, To Acquire And Rehabilitate The Inn At Temescal.

EXECUTIVE SUMMARY

The Inn at Temescal (Project) is an existing 22-unit operating hotel located at 3720 Telegraph Avenue in the Temescal neighborhood of Oakland. Operation Dignity (OD) and its development partner, Danco Communities, (Danco) have entered into a Letter of Intent (LOI) to acquire the property and convert it to 21 units (plus one manager's unit) of service-enriched housing for people who are currently homeless. The Project is seeking assistance from the City of Oakland's Measure KK bond funds as well as Project Homekey funds originating from the California Department of Housing and Community Development (the "Department"). The City applied for these funds on August 13, 2020, and the Project meets the Homekey standards for priority projects. This resolution would allow the City to accept and allocate Project Homekey

funds to the project, allocate Measure KK funds to the Project, and make California Environmental Quality Act (CEQA) findings for these actions.

REASON FOR URGENCY

As discussed herein, the City has applied for funding from the State's Project Homekey grant program, which is a competitive program. Because Project Homekey capital funds are derived from the State's direct allocation of federal Coronavirus Aid Relief Funds, these capital Homekey funds (for acquisition and rehabilitation) must be expended by December 30, 2020. We are seeking City Council approvals during this special meeting to ensure that the City's Homekey applications are in position to accept Homekey allocations by early September, and projects are in position to close well in advance of the December 30, 2020 Homekey expenditure deadline.

BACKGROUND / LEGISLATIVE HISTORY

INN AT TEMESCAL

The Inn at Temescal is an existing 22-unit operating hotel located at the corner of MacArthur Blvd. and Telegraph Avenue near downtown Oakland and MacArthur BART station. Operation Dignity (OD) along with its development partner Danco Communities, a for-profit developer who has completed three existing Permanent Supportive Housing projects in the Bay Area, have entered into a Letter of Intent (LOI) to acquire the property and convert it to 21 units (plus one manager's unit) of service-enriched housing for people who are currently homeless. The units will be restricted to individuals earning no more than 30 percent of area median income.

The updates needed at the Inn at Temescal are limited as the existing motel is in good condition. The project will include a small rehabilitation to add a common room that will include a fully functional shared cooking and dining space for all residents. Other updates will amount to life and safety, health and building code updates that are declared to be required. Danco Communities will serve as the developer.

Operation Dignity will be the on-site services provider for the Inn at Temescal project and will provide comprehensive tenancy support services to the 21 resident units. Operation Dignity will provide a 1 FTE Case Manager to work with the resident households. The Case Manager will have an on-site office and be available to residents full-time. Services will include: orientation and move-in support, case management and tenancy support planning, mental health services, substance abuse services, primary health care services, employment. Case managers will also work with each resident to identify resources for residents, address needs, and advocate on their behalf in the following areas: benefits advocacy, legal services, food assistance, financial literacy and support, child and family assistance, and life skills.

PROJECT HOMEKEY

On July 16, 2020, the Department announced the availability of approximately \$600 million in Project Homekey funding to rapidly sustain and expand the inventory of housing for people

experiencing homelessness who are at high risk of for serious illness and are impacted by COVID-19.

The Homekey grant funding will be made available to local public entities, including cities, counties, or other local public entities, including housing authorities or federally recognized tribal governments within California to purchase and rehabilitate housing, including hotels, motels, vacant apartment buildings, and other buildings and convert them into interim or permanent, long-term housing.

Of the \$600 million in Homekey grant funds, \$550 million is derived from the State's direct allocation of the federal Coronavirus Aid Relief Funds (CRF) for acquisition and rehabilitation. The remaining \$50 million is derived from the State's General Fund and is for operating subsidy. Each Homekey allocation must comply with the following expenditure deadlines:

- The \$550 million in CRF must be expended by December 30, 2020. For acquisitions, grantees must expend the funds by the expenditure deadline and the Project escrow must be closed by December 30, 2020.
- The \$50 million in State General Funds for operating subsidy must be expended by June 30, 2022.

The City jointly applied with Operation Dignity and Danco Communities (Sponsors) for \$3,150,000 in Homekey capital funding for the Inn at Temescal. Homekey requires that projects exceeding \$100,000 per unit must identify matching funds from sources outside of Homekey. The proportion of match required per unit increases with the per unit cost. The proposed match for this project is Measure KK funds, described below.

Measure KK (5331 & 5333)

In November 2016, voters passed Measure KK, the Affordable Housing and Infrastructure Bond Law, authorizing the City to issue \$600 million in general obligation bonds to fund various City infrastructure and affordable housing projects.

On November 29, 2016, the City Council approved Ordinance No. 13403 C.M.S. enacting the City of Oakland Affordable Housing and Infrastructure Bond Law (chapter 4.54, Article IV, Oakland Municipal Code). One-hundred million (\$100,000,000) was set aside for development activity related to anti-displacement and affordable housing preservation where funds may be spent on the acquisition, rehabilitation, or new construction of affordable housing, as set forth in the Affordable Housing and Infrastructure Bond Law.

On June 19, 2017, the City Council approved Resolution No. 86774 C.M.S. identifying the programs that are authorized for funding with proceeds from the first \$55 million tranche of Measure KK Bond funds.

Subsequently, on June 29, 2017 the City Council approved Resolution No. 86814 C.M.S. allocating \$14 million for the Acquisition of Transitional Housing Facilities, along with several other program uses. Of the \$14 million, \$6,984,255 remain available.

Lastly, per Resolution No. 87981 C.M.S., the City is also authorized to include \$1,000,000 in Series 2020B-2 of Measure KK, Infrastructure and Housing Bond for the acquisition and/or rehabilitation costs of transitional housing facilities. When combined with the \$6,984,255 set-aside for Acquisition of Transitional Housing, Measure KK has \$7,984,255 available, of which \$1,050,000 would be allocated to Inn at Temescal.

The Fiscal Impact section below provides additional detail on how the City proposes allocating all City matching sources of funds across Homekey projects.

ANALYSIS AND POLICY ALTERNATIVES

The City, and its developer partners have jointly applied for \$36,569,527 in Homekey funds for the following affordable housing projects:

Project Name	Address	Developer	Number of Affordable Units
Clifton Hall	5276 Broadway, Oakland CA 94618	TBD	63 units (21 family shelter, 42 permanent senior housing)
Inn at Temescal	3720 Telegraph Ave, Oakland, CA 94609	Operation Dignity and Danco Communities	22 units
11 th and Franklin	392 11 th Street, Oakland, CA 94607	Oakland and the World (OAW), McCormack Baron Salazar (MBS), and Memar Properties	82 units
BACS Scattered Sites: Project Reclamation	Up to 20 small sites throughout Oakland	Bay Area Community Services (BACS)	Up to 100 units

Recent U.S. Department of Housing and Urban Development analysis identified the gap between the need for specific resources in Oakland (such as emergency shelter and deeply affordable permanent housing) and what is currently available. Inn at Temescal will increase capacity to the system by adding deeply affordable units.

Purchasing the Inn at Temescal will have a direct effect towards reducing homelessness in Oakland, a high priority for the City. If the City of Oakland acquires the Inn at Temescal, it will directly add 21 units, the housing stock for those experiencing homelessness and therefore impacted by COVID-19. The 2019 Oakland Point In Time count showed that 4,071 people were experiencing homelessness in Oakland, an unprecedented 47% increase over 2017 levels.

The units proposed in this application, combined with the other proposed Project Homekey units within Oakland (totaling 266 units) would potentially contribute to a more than a five percent (5%) reduction in the number of people experiencing homelessness in Oakland.

Through Homekey, the City will use local match funds to leverage this one-time funding source of up to \$36.6 million in Homekey funding. If the City's applications receive Homekey allocations, the City would be in position to provide 266 units immediately for people experiencing homelessness.

FISCAL IMPACT

The following table shows the allocations of City sources across Homekey applications.

City of Oakland Homekey Application Summary

Project Name	Total Units	Total Development Cost	Total Homekey Requested	Total Local Funds Requested	City of Oakland Matching Funds		
					Measure KK (5331 & 5333)	CDBG-CV (1005400)	Housing Trust Fund - Boomerang (1870)
City funds available:					7,984,255	3,500,000	5,182,725
CCA Clifton Hall	63	15,000,000	9,583,333	5,416,667	3,416,667	0	2,000,000
392 11th Street	82	21,008,581	13,836,194	7,172,387	3,517,588	2,500,000	1,154,799
Inn at Temescal	21	5,702,865	3,150,000	1,050,000	1,050,000	0	0
BACS scattered small sites	Up to 100	10,000,000	10,000,000	0	0	0	0
TOTAL	Up to 266	51,711,446	36,569,527	13,639,054	7,984,255	2,500,000	3,154,799
City funds remaining:					0	1,000,000	2,027,926

If awarded a Homekey allocation, this project would use \$1,050,000 of Measure KK funds (5331 & 5333). Measure KK funds were dedicated by Council for the acquisition and rehabilitation of transitional housing. It is our understanding that the underlying bond language for Measure KK requires its use only on permanent housing, and therefore this project would both meet this standard as well as the Council's intent of addressing the homelessness crisis.

With this upfront City subsidy investment of \$1.05 million, the City would leverage over \$4.65 million in Homekey and private funds. That is \$4.43 in Homekey for every \$1.00 of local capital subsidy. At the cost of \$50,000 of City subsidy per unit, the City is securing immediate housing solutions at a lower cost than most direct acquisition strategies.

PUBLIC OUTREACH / INTEREST

Operation Dignity and Danco Communities will work with the City to develop the final and actionable community outreach plan to foster input towards the success of this project. They will also work with local neighborhood groups, leaders and organizations to hold a community meeting and focus group to talk about and address local concerns and needs. They will also include neighboring businesses and residents in their outreach effort by sending letters, emails and delivering notices.

Operation Dignity and Danco will also collaborate to market the project to potential residents. They have already held conversations with Oakland Housing Authority and the Oakland Veterans Affairs Supportive Housing (VASH) team at the Veterans Affairs about this project, and plan to work closely with both groups to market units to veterans and/or other tenant-based voucher households. Operation Dignity will also leverage their deep relationships with local organizations working with unhoused veterans and others experiencing homelessness in Oakland to publicize these units to eligible households.

COORDINATION

The Project Homekey application has required close collaboration between the HCDD, the Community Housing Services division of the Health and Human Services Department, Economic and Workforce Development, Finance, the Mayor's Office, Planning & Building Department, and the City Attorney's Office.

PAST PERFORMANCE, EVALUATION AND FOLLOW-UP

The two project sponsors have partnered for this project, and they will create a limited partnership specific to the project.

Danco Communities, the affordable, market rate housing & commercial development company within the Danco Group, was formed to tackle the high demand for quality affordable housing in Northern California. They have completed nineteen affordable housing developments (with four others currently under construction) and brought to market 969 affordable units to date. Danco has also maintained a role as property manager on the majority of the projects, managing 755 affordable units. One of their most recent developments was the acquisition/rehabilitation and conversion of the Eureka Downtowner Motel – an abandoned hotel in Eureka, CA of 100 rooms – into a 50-unit affordable senior and special needs project.

Operation Dignity has worked with the unhoused population in Oakland since 1993, and maintains robust partnerships with local service agencies, including primary and mental health care services; substance use treatment; food distributors; rental assistance agencies; and legal services. OD has a list of referral partners that are collaborations of many years' standing. Operation Dignity has participated in the acquisition and operation of three housing projects supporting the target population in the Bay Area. They have also had a role in the Community Cabins project and have a good track record with the City of Oakland.

SUSTAINABLE OPPORTUNITIES

The project recommended for funding will address the "3 E's" of sustainability in the following ways:

Economic: This project will generate some construction, professional services, and ongoing property management jobs in Oakland. As discussed in the Fiscal section, the Project also leverages significant State funding towards the acquisition of the Property.

Environmental: Through the acquisition of an already existing building in very good condition, there will be less construction and less impact on the environment. The proposed project is very well connected to public transit which enables residents to reduce dependency on automobiles and further reduce any adverse environmental impacts of development.

Race and Equity: The Inn at Temescal will promote social, racial and health equity by providing permanent supportive housing to Oakland residents experiencing chronic homelessness. City data shows that 70% of people experiencing homelessness in the city are African-American – far higher than their 24% share of the Oakland population. African Americans are also disproportionately impacted by COVID-19. Providing permanent housing to these at-risk individuals promotes racial, social, and health equity for the City of Oakland. Operation Dignity is committed to reducing racial disparities in homeless services. Reducing homelessness and providing supportive housing to Oakland residents achieves greater social equity and is important to the long-term health of the city. Social equity is built through Housing First principles in service delivery which includes: case management, mental health services, substance abuse services, primary health care services, employment, financial literacy and support, life skills, legal services, child and family assistance, benefits advocacy and food assistance.

The COVID-19 pandemic has exacerbated existing community needs and inequalities. In many communities, homelessness was already experienced disproportionately by race and other protected classes and persons experiencing homelessness are at increased risk of infection and death due to COVID-19. The Centers for Disease Control and Prevention is also reporting that evidence points to disproportionate impacts by race and ethnicity for COVID-19 hospitalization and death. As of June 12, age-adjusted hospitalization rates are highest among non-Hispanic American Indian or Alaska Native (5 times white persons) and non-Hispanic Black persons (5 times white persons), followed by Hispanic or Latino persons (4 times white persons).

California Environmental Quality Act

Under AB 83 (2020), there is a statutory exemption from the California Environmental Quality Act (CEQA) for activities funded by Homekey. (Health & Saf. Code, § 50675.1.2.) The CEQA exemption may apply when Homekey funds are used to provide housing for those who are impacted by the COVID-19 pandemic and experiencing homelessness or at risk of homelessness. (Health & Saf. Code, §§ 50675.1.1, 50675.1.2; Homekey Program 2020 Notice of Funding Availability, sec. 100.)

The City plans to use the CEQA exemption provided through the Homekey program. This project fits within the Homekey exemption parameters as an existing facility that will be used to provide housing for individuals experiencing homelessness.

The City of Oakland Planning & Building department is currently preparing a Notice of Exemption for the project under Homekey.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Adopt The Following Resolution:

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For questions regarding this report, please contact Shola Olatoye, Director of the Department of Housing and Community Development, (510) 238-3714, SOlatoye@oaklandca.gov.

Respectfully submitted,



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Director

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Special City Council
August 28, 2020