



Legislation Text

File #: 20-1128, **Version:** 1

Recommendation to authorize City Manager, or designee, to execute any and all documents necessary, including an Agreement for Acquisition of Real Property and Escrow Instructions (Agreement), with Jasman Hospitality, Incorporated, a California corporation (Seller), for the purchase of certain real property located at 1725 Long Beach Boulevard, Assessor Parcel Number 7269-019-049 (Subject Property), in an amount not to exceed \$21,720,000;

Accept the Categorical Exemption SE-20-092;

Increase appropriations in the Health Fund Group in the Health and Human Services Department by \$15,337,400, offset by grant revenues; and

Increase appropriations in the General Fund Group in the Economic Development Department by \$21,720,000, offset by a transfer of grant revenues from the Health Fund Group and Community Development Grants Fund Group. (District 1)

On July 16, 2020, the State of California Department of Housing and Community Development (HCD) released a Notice of Funding Availability (NOFA) for approximately \$600 million in grants as part of the Homekey Program (Homekey). The program is a statewide effort to rapidly sustain and expand housing for persons experiencing homelessness and impacted by the COVID-19 pandemic by partnering with local entities to acquire and rehabilitate a variety of housing types, including, but not limited to, hotels, motels, vacant apartment buildings, and residential care facilities.

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) and \$50 million is derived from the State's General Fund to supplement the acquisition of, and to provide initial operating subsidies for, Homekey sites. As a result, any award from the CRF funds must be expended by December 30, 2020, while General Fund funds must be expended by June 30, 2022. On October 20, 2020, the City Council adopted a Resolution to accept and expend grant funding from the HCD, in an amount not to exceed \$36,000,000 for the acquisition and operation of an existing hotel and conversion into interim housing options for persons experiencing homelessness. Additional funding to support acquisition efforts in the amount of \$6,050,000 have been identified from other grant programs including the Homeless Emergency Aid Program (HEAP), the Federal Emergency Solutions Grant (ESG), Community Development Block Grant (CDBG), and the State's Coronavirus Aid, Relief, and Economic Security (CARES) Act allocation.

The City has identified a property located at 1725 Long Beach Boulevard, Assessor Parcel

Number 7269-019-049 (Subject Property) (Attachment A), as a potential site for Homeless Services Housing. The Subject Property is approximately 34,740 square feet and is improved with a 102-room hotel, known as the Best Western of Long Beach. The property owner has agreed to sell the Subject Property to the City for \$21,660,000, approximately 8 percent above the fair market value, as determined by an independent appraisal. An additional amount up to \$60,000 will be expended for acquisition costs, appraisal, environmental investigation, and escrow and closing fees. The acquisition would begin to fill a crucial gap in the City's Homeless Services. The proposed 102 units represent 6.4 percent of the unsheltered population identified in the Long Beach 2020 homeless count and will ensure more effective transitions into permanent housing.

After acquisition and minor renovation, the Subject Property would be temporarily operated by an on-call property management firm, leveraging the Long-Beach Multi-Service Center (MSC) and the Long Beach Continuum of Care (CoC) to provide wraparound services. A competitive Request for Proposals (RFP) will be issued for ongoing site management and wraparound services provision from local providers with experience in operating housing programs focused on supporting people experiencing homelessness with multiple special needs.

Interim staffing for operations at the Subject Property are anticipated to be \$4,000,000 for the first two years and will be funded, with a high degree of certainty, but no guarantee, through the Homeless Housing, Assistance and Prevention (HHAP) grant from the Business, Consumer Services and Housing Agency Homeless Coordinating and Financing Council (HCFC) and the ESG from the Department of Housing and Urban Development (HUD). Utilities and maintenance are expected to be an additional \$275,000 annually and may need to be funded by the City using existing resources. Further, the Subject Property was built in 1992 with the most current replacement of furniture and fixtures in 2018. The Subject Property is considered to be in good condition, but an in-depth building assessment will need to be completed. As a result, regular maintenance and potentially significant major maintenance may be needed. No funding has been identified for major costs. After the initial two years of operations, it is anticipated, but not assured, that alternative interim housing will be identified and the Subject Property may be available for disposition. While the City may sell the Subject Property in the future, the conditions of the grant will require a long-term affordability covenant on the property that will restrict future operations to interim or permanent affordable housing. Given the uncertainty of future market conditions, the sale of the Subject Property may result in a sale at or below cost and it is uncertain whether the sale for non-traditional housing purposes or to a for-profit entity would be permitted or require proceeds from the sale to be returned to the granting agencies. Further, there is no guarantee that the City will be in a position to recoup any costs incurred for interim maintenance or repairs.

The conversion of motels to interim and supportive housing is statutorily exempt from environmental review pursuant to Public Resources Code Section 21080.50. Additionally, the Legislature, in approving the Project Homekey program, made specific findings that such

funding and projects were exempt from environmental review. Alternatively, the project involves the conversion of an existing structure, which is categorically exempt under California Environmental Quality Act (CEQA) Guidelines Section 15301. The acquisition of the Subject Property has been reviewed under CEQA and Statutory Exemption SE-20-092 (Attachment B) was issued for this action.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on October 28, 2020 and by Director of Financial Management John Gross on November 1, 2020.

City Council action is requested on November 17, 2020, to ensure the acquisition of the Subject Property can occur by the Project Homekey deadline of December 30, 2020.

The total acquisition cost of the Subject Property will not exceed \$21,720,000. Of the total cost, \$21,660,000 will fund the purchase of the Subject Property and an additional \$60,000 will be expended for acquisition-related costs. An additional amount of up to \$310,000 will be needed for startup expenses related to the project and will be funded by the Health Department using existing HEAP grant funds. Funding sources known to be available to purchase the Subject Property are as follows:

Department	Amount	Funding Source
Health and Human Services	\$15,337,400	HCD Project Homekey Grant
Health and Human Services	\$390,000	HEAP Grant
Health and Human Services	\$1,000,000	State CARES Act allocated for Homeless Services
Development Services via Health	\$3,600,000	Federal CARES Act - ESG
Development Services	\$1,392,600	CDBG-CV3
Total:	\$21,720,000	

Annual operating costs, which include staffing, for the first two years, in the amount of \$4,000,000 are expected, with a high degree of certainty (but not a guarantee), to be funded through the HHAP grant from HCFC and the ESG from HUD. An additional annual amount of \$275,000 is anticipated for utilities and routine maintenance. As funding for these costs has not been identified, the General Fund would likely need to pay for these costs by reducing other services. It is also possible that other operating costs within the Health Department may be reduced to support the operation at the Subject Property. If there are unexpected operating or maintenance costs, or the grant funding is inadequate, the costs would need to be funded either by reducing other General Fund or Health Fund costs or, if the costs are one-time likely from General Fund emergency reserves or Health Fund funds available, if any.

After the initial two years of operations, the Subject Property may be sold for the same or other similar purposes. It is uncertain whether the market or grant requirements would support this but there is a potential financial impact if the market or granting requirements do not allow the City to recoup property equity or maintenance costs. If there is no market or the City decides to keep the property, the ongoing operating costs and maintenance costs may be substantial and difficult to fund and, if other funding sources are not found, may need to come from reductions in lower priority General Fund or Health Fund operations. If the City has to absorb losses on the sale, that funding may need to come from General Fund emergency reserves if there are no operating reserves by that time or from any surplus if the City has one.

The following requests for budget adjustments are necessary to appropriate the funding of the proposed purchase as described above:

- Increase appropriations in the General Fund Group in the Economic Development Department by \$21,720,000 for the purchase of the Subject Property, including acquisition -related costs, offset by a transfer of grant revenues in the amount of \$16,727,400 from the Health Fund Group in the Health and Human Services Department, and \$4,992,600 from the Community Development Grants Fund Group in the Development Services Department.
- Increase appropriations in the Health Fund Group in the Health and Human Services Department by \$15,337,400, offset by State Homekey Program grant revenues to transfer to the Economic Development Department for the purchase of the property.

This recommendation has significant staffing impact beyond the normal budgeted scope of duties although it is consistent with existing City Council priorities. The staff effort to open the former hotel to interim housing is expected to create significant conflicts among top priority projects as there are so many competing priorities due to the pandemic, the budget situation, and staff resources.

Approve recommendation.

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