



MEMORANDUM

To: Mayor and Council

From: Alex Gale, Officer, Office of Real Estate Services
Dianna Grey, Homeless Strategy Officer, Austin Public Health

Date: January 20th, 2021

Re: Staff Recommendation for Hotel Purchases

This memo is intended to provide supplementary information to support Request for Council Action (RCA) posted for the January 27th City Council Agenda, which relates to the purchase of two existing hotel properties for conversion into permanent supportive housing for individuals experiencing chronic homelessness. The memo also gives a general overview of anticipated funding for building operations, support services, and renovations, which may be the subject of future Council considerations.

10811 Pecan Park Boulevard #2 (78750)

The property, currently operating as an 83-room hotel, has an anticipated purchase price of \$9,500,000. Built in 2018, all rooms include full kitchenettes and independent air conditioning systems. Current building amenities include a lobby with computer stations, laundry room, community workout room, and outdoor patio space. Some guest rooms may be converted into additional common area or office space, such that the property is expected to provide approximately 80 units of permanent supportive housing (PSH) upon completion.

The site is located in District 6, just southeast of the intersection of Highway 183 North and North FM 620, in close proximity to Capital Metro Lakeline Station and Lakeline Mall. The site is adjacent to a restaurant and hotel on either side, and to single family use at the rear of the property's parking lot. Additional perimeter fencing is expected to be installed to provide a buffer between multifamily and single-family use.

13311 Burnet Road (78727)

Built in 2018, the property currently operates as a 65-room hotel. Anticipated acquisition cost is \$6,750,000. Of the 65 rooms, 41 currently have kitchenettes. The property currently has a front desk with controlled entry, a small lobby/coffee area, and guest laundry facilities. After converting some rooms to add needed office space and common areas, the building is expected to provide approximately 60 PSH units.

Located in District 7, the property sits at the corner of the northbound Mopac service road and Grand Boulevard, just south of Wells Branch Parkway/Howard Lane, where there is a shopping center with retail and services. Howard Station is .6 miles away.

Both locations substantially advance the City of Austin's commitment to deconcentrating poverty and providing affordable housing in all areas of the community.

Acquisition Funding

The source of funding for both properties will be the Housing & Planning Department's 2018 General Obligation Bonds, at a combined total of \$16,250,000.

Service Provider/Operator Contract

In the summer of 2020, the City of Austin issued an RFQA seeking nonprofit providers interested in operating prospective city-purchased hotels to be converted for use as bridge shelter or permanent supportive housing. No responsive submissions were received. Homeless Services Division (HSD) subsequently approached two leading PSH service providers as potential partners. Both Integral Care and Caritas of Austin have now submitted letters of interest (please see attachments); with one organization interested in Texas Bungalows, and both interested in Candlewood Suites.

HSD anticipates negotiating a contract with a service provider/operator for each hotel over the next three months. The scope of work would include the provision of robust case management services for tenants, operation of the property in partnership with a subcontracted third-party management, and completion of any improvements needed to accommodate long-term residential use. Funded operations will include 24-hour front desk coverage, as well as any ancillary transportation services needed to ensure robust access to public transportation.

While detailed operating and service budgets will be developed during the negotiation process, annual service costs and operating costs have been estimated below. Funding is expected to be provided from Austin Public Housing, drawing from the additional \$6.5M added to the FY21 budget to address homelessness.

Candlewood Suites: Service costs are estimated at \$1,120,000, and building operating costs are projected at \$1,056,000 (for a total of \$2,176,000 per fiscal year at full occupancy). Since the project would not likely be ready for occupancy until Q4 of the current fiscal year, combined expenses for operations and services are estimated at between \$500,000 and \$600,000 for FY21.

Texas Bungalows: Service costs are estimated at \$840,000 and building operating costs are projected at \$792,000 (for a total of \$1,632,000 per fiscal year at full occupancy). With occupancy not anticipated until late in FY21, this year's combined expenses are estimated at between \$500,000 and \$600,000.

Capital Improvements

The two hotels under consideration are well-configured for conversion to PSH, and in good condition (both placed in service in 2018). Development of specifications for, and costing of, renovations will be part of the due diligence to be completed once site control is established. Community partners have also indicated that there is substantial philanthropic interest in supporting the hotel conversion strategy. Use

of unrestricted private dollars would leverage the City's investment, and also likely shorten the timeline to occupancy.

Cc: Spencer Cronk, City Manager
CMO Executive Team
Stephanie Hayden-Howard, Director, Austin Public Health



Downtown HDQ
611 Neches Street
P.O. Box 1947
Austin, Texas 78767-1947

North Office
9027 Northgate Blvd.
Austin, TX 78758

Main: 512.479.4610
Fax: 512.472.4164

January 5, 2021

Homeless Services Division
Attention: Dianna Grey, Homeless Strategy Officer
Dianna.Grey@austintexas.gov

Re: Interest in PSH operation at Candlewood Suites

Dear Dianna,

I am writing to convey Caritas of Austin's interest in utilizing Candlewood Suites located at 10811 Pecan Park Boulevard, Building 2, Austin, TX for the operation of Permanent Supportive Housing (PSH) for people experiencing homelessness. A team of design, engineering and construction professionals toured the site with us; and have made preliminary recommendations for some modest rehabilitation to create long-term durability as well as a sense of permanency. In consultation with this team, I am confident the components which will need rehab prior to occupation can be completed in a reasonable timeframe with the shared goal of getting future residents housed as soon as possible.

I respectfully request that should the City of Austin choose Caritas of Austin as PSH operator of this property; that we quickly enter into a developer agreement in order to expedite the rehabilitation with this team which represents many years of experience converting extended stay hotels into PSH.

Caritas of Austin looks forward to partnering with the City of Austin on this project.

Sincerely,

Jo Kathryn Quinn
President/CEO



January 19, 2021

Dianna Grey
Homeless Strategy Officer
City of Austin
PO Box 1088
Austin, TX 78767

Dear Ms. Grey,

Through this Letter Integral Care expresses our interest in collaborating with the City of Austin on a Hotel Conversion project to develop housing to address homelessness. This LOI is based on our review of both the 10811 Pecan Park Blvd and 13311 Burnet Road properties. We are also open to considering other properties as alternatives and which may be a better fit for the individuals we serve.

Integral Care Experience and Qualifications

Integral Care helps individuals build health and well-being, so everyone has the foundation to reach their full potential. When individuals have a safe and stable place to live and the support services to address their health care needs, they do well and thrive. However, recovery from mental illness, substance use disorders and chronic health conditions is almost impossible when you don't have a place to call home. Integral Care has served individuals experiencing homelessness for over 20 years, providing the largest continuum of homeless services in Travis County. In FY2019, Integral Care served over 5,400 individuals identified as experiencing homelessness or marginal homelessness by providing a wide array of services, including outreach, shelter, permanent supportive housing, substance use treatment and specialty integrated behavioral health services among other programs. Today, Integral Care provides permanent supportive housing to more than 800 people who are formerly homeless in housing that we own as well as scattered site housing.

Despite our continued efforts to increase housing for individuals experiencing homelessness who also live with mental illness, substance use disorder, a chronic health condition and/or other disability, the need for affordable units with access to intensive support services exceeds the resources available. ECHO's *Current Needs and Gaps Report (March 2019)* identified that 38% of people experiencing homelessness in Austin needed a Permanent Supported Housing intervention, including housing location, ongoing rental subsidies and supportive services to end their homelessness. We also know that many adults who experience homelessness have more than one health issue. Integral Care data from FY2019 demonstrates that 65% of individuals experiencing homelessness in our system had at least one co-occurring mental health and substance use disorder, while 45% also had a comorbid chronic medical condition. In addition to safe and stable housing, access to integrated primary and behavioral health care is critical to support the well-being of this population.

Integral Care opened Terrace at Oak Springs, a single site 50 unit permanent supportive housing community in November 2019. This is the first in of its kind in Central Texas and is identified by HUD as the best practice for serving individuals who have experienced chronic homelessness. In the first 6



months of operating this housing first project, residents significantly reduced engagement with multiple public systems. This included a 71% reduction in arrests, 49% reduction in EMS encounters and 45% reduction in emergency room visits. Access to safe housing and support services tailored to the needs of each individual has created a path towards health and recovery for residents. With our success moving people from the streets into housing with rehabilitation supports at Terrace at Oaks Springs and other properties, Integral Care is uniquely qualified to collaborate with the city of Austin on a hotel to housing conversion strategy.

Project Design

This proposal envisions conversion of one of these properties to a mixed-use housing community. With a property sized between 65-85 units, we would dedicate units as follows:

- 50 new permanent supportive housing units with dedicated team of professionals to provide clinical and rehabilitative services for individuals with high needs
- Approximately 3-5 units for office space for onsite staff
- Remaining units for individuals who are currently enrolled in a voucher or rapid rehousing program who need additional support and access to low barrier housing.

This will be low barrier housing that creates the opportunity for people, who are not able to access other housing options due to credit or rental history and other, to have a safe a stable place to call home.

The operating budget will need to include funds for 24-hour desk coverage, evening and weekend security and contracted Property Management services. The per unit per year operating cost is approximately \$18,500, depending on the size of the property.

To ensure the financial viability of the housing community, units would need to be leased at HUD's current standard for Fair Market Rent (updated annually). Efficiency units in 2020 were \$988 and \$1,134 for one-bedroom for units with all bills paid. We will need the City of Austin's support in advocating for the full Fair Market Rent standards as outlined by HUD to be the allowable payment standards for Permanent Supportive Housing Programs. For this project to be successful, the City of Austin will need to facilitate access to project-based rental vouchers for the 50 permanent supportive housing beds (HACA, HATC, or CoA/AHFC via the Housing Trust Fund). Integral Care will collaborate to make all reasonable efforts to secure long-term subsidies. If subsidies are not sufficient to cover the operating costs, the city of Austin will need to identify funds to cover the gap.

To ensure that individuals have access to the right level of care to support their recovery and maintain their housing, additional funding from the city is needed for outpatient clinical services, onsite support services staff and client assistance funds. Our experience indicates that most people moving into housing have a comorbid healthcare needs such as mental illness and substance use disorder and many also have chronic medical conditions. Clinical and program staffing for any site will include: a licensed program manager, rehabilitation specialists, service coordination, peer support specialists, and a registered nurse. The cost for service dollars to support individuals living in permanent



supportive housing is approximately \$12,000 per person per year.

Ownership/Lease Structure

Integral Care prefers that the City of Austin or Austin Housing Finance Corporation purchase the property and arrange for a long-term low cost lease with Integral Care for the property. Integral care is not bound to the agreement if capital, operating, or service resources are not identified.

Building Alterations/Site Improvements

Integral Care will rely on the city of Austin to provide funding for any needed alterations or improvements to the property to support a single site PSH model in consultation with Integral Care. This would include kitchens in all units, common spaces (indoor and/or outdoor), controlled access, fencing around the property, and any needed accommodations to ensure ADA accessibility requirements are met.

Integral Care and the City of Austin will collaborate to ensure public transportation is accessible to the property.

Liability/Insurance

Integral Care and associated contractors will maintain proper insurance.

We look forward to continuing the discussions with you and your team on how best to working together to reduce homelessness in our community. Please do not reach out to me should you have any questions or concerns.

Sincerely,

David Evans
Chief Executive Officer