



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Erik L. Soliván

SUBJECT: See Below

DATE: November 7, 2024

Approved

Date:

11/8/24

INFORMATION

**SUBJECT: Update on Branham and Monterey Homekey 2.0 Project:
Construction Progress**

The purpose of this memorandum is to provide City Council with an update on the construction status of the Branham and Monterey Homekey development (Project), highlighting both progress and ongoing challenges related to multi-family modular construction and that the expected construction completion is February 2025 with full occupancy to occur no later than May 2025.

BACKGROUND

Homekey Award and Financing

On May 11, 2021, the Housing Department issued a Request for Information to solicit potential property acquisition opportunities and developer sponsor partnerships for upcoming Homekey project opportunities. LifeMoves, a local nonprofit organization, submitted a proposal for Branham and Monterey, and were later selected as the City's partner (co-applicant) to jointly apply for the California Department of Housing and Community Development's (HCD) Homekey program. LifeMoves then selected DevCon Inc. (DCI) as the general contractor and DCI contracted with Volumetric Building Companies (VBC) as the modular unit manufacturer and supplier.

On September 9, 2021, HCD released its Notice of Funding Availability to announce the availability of approximately \$1.45 billion of Homekey grant program funding through the Round 2 Notice of Funding Availability. This program continued the state's significant

investment to sustain and rapidly expand permanent and interim housing for persons experiencing homelessness or at risk of homelessness and who were inherently impacted by or at increased risk for medical diseases or conditions due to the COVID-19 pandemic.

On October 5, 2021, City Council authorized the City to apply for a Homekey Round 2 funding opportunity for the purpose of developing interim housing on a City-owned property located in City Council District 2 at the intersection of Branham Lane and Monterey Road. Subsequently, on August 24, 2022, HCD awarded the City and its co-applicant partner, LifeMoves, \$51,552,800 in HCD award funding.

Below is a breakdown of the capital and operating funds for the Branham Lane and Monterey Road interim housing project.

Funding Source	Purpose	Award Amount
HCD Homekey Award	Operating Funds	\$10,852,800
HCD Homekey Award	Construction Funds	\$40,700,000
City/Measure E	Operating Funds	\$27,000,000
City/Measure E	Construction Funds	\$10,000,000
City/Measure E	Construction Funds	\$2,000,000
City/Measure E	Construction Funds	\$1,500,000
Sobrato Philanthropies	Construction Funds	\$5,000,000
County of Santa Clara	Operating Funds	\$4,000,000
Total Award Funds		\$101,052,800
Total Construction Funds Award		\$59,200,000
Total Operating Funds Award		\$41,852,800
Total Units		204
Construction Per Unit Cost		\$290,000
Projected Annual Operating Per Unit Cost <i>(Seven-Year Forecast)</i>		\$29,308

On November 1, 2022, City Council approved a resolution to formally accept the \$51,552,800 Homekey award and authorized the City Manager to negotiate and execute the necessary agreements, including an HCD Standard Agreement, to allocate \$51,552,800 for construction funding and operating subsidies. City Council also approved \$37,000,000 in Measure E funds for the construction and operations of the Project, which would later be administered through a construction grant agreement and an operating grant agreement with LifeMoves. Additionally, on October 5, 2021, Sobrato Philanthropies provided \$5,000,000 in grant funding for the construction of this Project.

On February 28, 2023, City Council approved a resolution to increase the City's \$37,000,000 grant commitment to LifeMoves by \$2,000,000 to cover additional costs to widen units to include kitchenettes and the remaining funds to cover reasonable and necessary cost overruns for the Project.

On June 18, 2024, the Housing Director approved an extension for the Project and increased the City's \$39,000,000 grant commitment by an additional \$1,500,000 through the Housing Director's Delegation of Authority as granted under section 5.06.345(A)(1) and (3) of the San José Municipal Code. This Project timeline extension and grant award increase was approved to cover costs caused by delays due to severe weather conditions, necessary water damage repairs to the modular units, and other factors outlined in this memorandum.

Construction Progress and Challenges

Since starting construction in March 2023, the Project achieved significant construction progress as detailed in the milestones outlined below.

- March 7, 2023: HCD approval for modular components.
- March 16, 2023: Issuance of Notice to Proceed; start of construction.
- April 12, 2023: Demolition of the existing structures completed.
- April 27, 2023: Grading work completed for building pads.
- June 12, 2023: Issuance of the foundation permit.
- June – October 2023: Installation of utilities and forming/pouring of foundation pads.
- October 2023 – January 2024: Delivery and setting of all factory-built modular units.
- October 21, 2024: Revised expected completion date to address challenges.

The planned construction completion was intended for June 1, 2024. However, the Project encountered several challenges, detailed below, that caused delays in the expected construction completion date to October 21, 2024.

Overview of Reasons for Project Timeline Extension from June 2024 to October 2024

Severe Weather Conditions

Over the past 19 months (March 2023 to October 2024), the Project faced prolonged periods of severe winter weather, extending the Project timeline by 26 days, six days more than initially projected. Before modular units could be installed, the wet conditions affecting the modular units led to substantial moisture levels that resulted in water damage requiring significant repairs, further impacting the overall construction schedule.

Bird, Biological Survey, and Tree Removal

The discovery of a hummingbird's nest on-site required compliance with environmental regulations, including a comprehensive bird survey and additional biological assessments. Tree removal was also mandated to proceed in accordance with environmental standards. These unanticipated requirements led to further delays in the overall construction schedule.

Scope of Work Changes (Sewer and Foundation Issues)

During construction, uncharted sewer lines were discovered on the previously undeveloped site, requiring additional potholing and investigation that subsequently resulted in the need to revise the construction plan and schedule. Moreover, modifications to the construction site plan called for a reevaluation of the foundation design, necessitating a new foundation permit, which later required additional time in the construction schedule for permit review. These adjustments extended the Project timeline due to the procedural and logistical impacts of these scope of work changes.

Foundation Permit Delays

Modifications to the site plan required a reevaluation of the foundation design, leading to the need for a new foundation permit. This procedural adjustment caused an unexpected delay in the Project timeline, extending the Project timeline beyond the original estimates because additional approvals were needed before construction could resume.

Structural Modular Connections During Setting

The connection of the modular units to the foundation required additional structural strapping that was not fully addressed in the initial Project review. This structural strapping, critical for ensuring the stability and integrity of the modular units, needed further engineering review and confirmation than initially anticipated. The engineering review was essential before the final installation of the modular units could proceed.

While many unforeseen factors, as mentioned above, have posed considerable delays to the Project schedule, a more significant challenge related to multi-family modular housing construction lies in the overall coordination between DCI, the general contractor, and its subcontractor, VBC, responsible for the manufacturing and supply of the off-site modular units.

Modular construction requires a much higher level of coordination than typical construction between parties and significant integration of the design, fabrication, and construction phases of the Project. For example, building components should be fabricated, transported, and delivered to the site precisely when the site infrastructure required for their installation has been completed, avoiding any additional costs for

storage at either the modular unit fabrication plant or the construction site. Such delays, which stemmed from misalignment between these parties (DCI and VBC) in terms of timelines, synchronization, and unit readiness, have compounded the scheduling risks, further impacting the Project's overall progress.

ANALYSIS

The development team (LifeMoves, DCI, and VBC), and City staff (Housing and PBCE Department) have made significant efforts to mitigate the delays and achieve construction completion as soon as feasibly possible. City staff have prioritized the Project's reviews, and partners have diverted significant attention and labor to mitigate the delay impacts. As of early October 2024, construction progress was estimated to be more than 85% complete. See the **Attachment** – Construction Progress Photos – showing the Project's current progress.

Despite these efforts, additional challenges have further delayed the expected construction completion date. Resolving these challenges and completing the outstanding work is crucial to ensure safe and livable homes for the Project's future residents. A summary of the additional challenges associated with modular housing construction and their direct impact to the Project's timeline, as well as the remaining outstanding work, are detailed below.

Additional Project Timeline Extension from October 2024 to February 2025

The development team's intent was to expedite construction by quickly stacking and assembling the modular units onsite. However, upon delivery, the modular units were found to be non-compliant with the approved VBC contract documents, failing to meet key specifications outlined in the construction specifications. To prevent further delays and mitigate risks to the Project timeline, DCI assumed additional responsibilities beyond its original scope of work, making critical modifications to bring the buildings into compliance with the required construction plans and specifications.

Deficient Waterproofing Installation

The Project encountered significant challenges set the Project timeline back, including deficiencies in the factory-installed waterproofing and the incorrect installation of the exterior protective finish. To remediate this, DCI submitted an alternate liquid-applied waterproofing system for building and permit approval by the City's Planning, Building, and Code Enforcement Department (PBCE). Additionally, scaffolding had to be erected around all buildings to facilitate the removal of the exterior protective panels and the replacement of the waterproofing, followed by the reinstallation of the correct exterior finishes. These issues caused delays and additional work for waterproofing the exterior of the modular units.

Residential Unit Shower Pan Retrofit and Americans with Disabilities Act Compliance

DCI identified a deficiency with the shower pans in the residential units and notified VBC that they were not compliant with requirements in the Americans with Disabilities Act and had not been installed according to the manufacturer's required installation instructions. VBC proposed to complete the shower pan retrofit and has reported that the delivery and installation of the necessary "surrounds" (the waterproof material that surrounds the shower and funnels water to the drain) are scheduled for November 2024.

Pacific Gas and Electric Company and Union Pacific Railroad Coordination for Approval and Energization

This delay was primarily due to coordination issues between the Pacific Gas and Electric Company (PG&E) and Union Pacific Railroad agency. PG&E's infrastructure installation work for this Project site required accessing a right-of-way on the Union Pacific Railroad agency's property, and PG&E needed to submit an encroachment permit application to the Union Pacific Railroad agency in December 2023. The Union Pacific Railroad (UPRR) agency, in May 2024, notified PG&E that an encroachment permit was not required. On September 24, 2024, the necessary infrastructure installation work was completed by PG&E and the Project site is now undergoing PG&E's standard testing protocol, which is expected to be completed by December 2024.

For over a year beginning in August 2023, DCI/LifeMoves worked with PG&E and the Union Pacific Railroad agency to ensure adequate electrical power could be brought to the Project site. This effort involved both entities since PG&E's electrical pole installation work anticipated entering the right of way on land owned by the Union Pacific Railroad agency. The substantial back and forth coordination and correspondence between these entities required close monitoring and engagement by DCI/LifeMoves, resulting in significant delays while the entities worked through the steps to ultimately ensure that electrification at the Project site could move forward.

The Project currently has power installed and operating an additional eight to 10 weeks of PG&E testing is required to ensure all systems are fully operational before occupancy can begin at the Project site. This testing phase is essential to ensure all systems are operational and have had an impact on the Project's overall timeline.

Mechanical Room Plumbing Correction and Fire Wall Assembly Approval

During a PBCE inspection, significant deficiencies were found in the modular units, including missing critical firewall separations, particularly in the mechanical rooms.

Although PBCE staff have taken extraordinary steps to expeditiously resolve numerous issues, the firewall assembly modification and mechanical room plumbing correction prompted by the PBCE's requirements and subsequent review and approval process, have been impacted by several delays detailed below.

- VBC first addressed a plumbing error in its modular unit fabrication factory, where a T-connection was installed instead of the specified Y-connection, bringing it into compliance with HCD-approved plans for the Project.
- Modifications to the firewall assembly required a new permit submission package for PBCE to review and approve.
- After numerous resubmittals from VBC to PBCE, PBCE staff returned comments to VBC on September 27, 2024.
- A fourth submission from VBC to the PBCE for the revised permit application for the firewall assembly reinspection currently under review.

If VBC's revised permit application is approved by the PBCE Department, the reinspection work would be completed over the next several weeks. Once the inspections are completed and approved, the planned insulation and drywall installation can proceed along with subsequent inspections by PBCE staff. Water heaters and hot and cold-water systems, along with fire alarms in the units, will undergo testing to ensure full functionality, and targeting a completion by January 6, 2025.

Fire Sprinkler Correction to Modular HCD-approved plans

The fire sprinkler system for the modular units required additional fieldwork to ensure compliance with HCD-approved plans, particularly in the support modular units and third-floor modular units. These necessary corrections were made to align the sprinkler system with the HCD-approved drawings.

Expected Construction Completion

DCI's updated overall Project completion timeline (factoring in the recent required permit inspections) indicates that the Project's completion date is now February 28, 2025. While various challenges have impacted the timeline, the development team remains committed to meeting these final project milestones and delivering a fully operational project by February 28, 2025 or sooner.

COORDINATION

This memorandum was coordinated with the City Attorney's Office and City Manager's Budget Office.

HONORABLE MAYOR AND CITY COUNCIL

November 7, 2024

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/s/

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Housing Director

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Attachment – Construction Progress Photos

ATTACHMENT
Construction Progress Photos

Exterior Side View from Monterey Road



Exterior Side View from Branham Lane



Exterior Side View from within The Project Site



Exterior View of Outdoor Common Area From within The Project Site



View of Kitchnette within Modular Unit

