



# City of Costa Mesa

## Agenda Report

77 Fair Drive  
Costa Mesa, CA 92626

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**File #:** 22-939

**Meeting Date:** 11/15/2022

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**TITLE:**

**APPROVE A COMMITMENT OF \$850,000 OF LOW/MODERATE INCOME HOUSING ASSET FUNDS TO CM MERCY HOUSE CHDO, LLC, FOR THE CONVERSION OF THE MOTEL 6 INTO A HOMEKEY PROJECT LOCATED AT 2274 NEWPORT BOULEVARD IN COSTA MESA**

**DEPARTMENT:** CITY MANAGER'S OFFICE

**PRESENTED BY:** NATE ROBBINS, NEIGHBORHOOD IMPROVEMENT MANAGER

**CONTACT INFORMATION:** LORI KARAGUEZIAN, SENIOR MANAGEMENT ANALYST,  
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**RECOMMENDATION:**

Staff recommends the City Council:

1. Approve an appropriation and allocation of \$850,000 in Low/Moderate Income Housing Asset Funds to CM Mercy House CHDO LLC for development of the Motel 6 Project Homekey Housing Project.
2. Authorize the City Manager or their designee to execute the Funding Agreement and all associated documents, as needed, to bring the project to fruition and create an estimated 88 units of permanent affordable housing.

**BACKGROUND:**

**Project Description**

The Motel 6 Housing Project ("Motel 6" or "Project") is located at 2274 Newport Boulevard, Costa Mesa. The Project site is approximately 1.16 acres, which includes the building currently occupied by Motel 6 Costa Mesa, consisting of 94 guest rooms for commercial/hospitality use. The proposed Project contemplates the conversion of the motel property into 88 units of permanent affordable housing. The project will include 30 units for Veterans at-risk of or experiencing homelessness, 10 units for households at-risk of or experiencing homelessness that are eligible to receive Mental Health Services Act (MHSA) assistance, and the remaining 47 units will be set-aside for Costa Mesa senior citizens (age 62+) earning 50% or less of the Area Median Income (AMI). The Project has secured funding commitments from and is an outstanding collaboration between the State Homekey Program, County of Orange and City of Costa Mesa.

## **Homekey Program**

The California Department of Housing and Community Development's Homekey Program ("Homekey" or "Homekey Program") provides direct housing opportunities for homeless and at-risk households by subsidizing the acquisition and conversion of hotels and motels into permanent housing.

Motel conversions to permanent housing and participation in the Homekey Program were identified as City Council objectives during the goal-setting retreat held in September 2021.

On April 25, 2022, the Motel 6 Project was awarded \$10,675,000 in Homekey funds from the State. Per Homekey Program requirements, construction and/or rehabilitation of Homekey units must be completed within 12 months of the date of grant award (i.e. April 25, 2023) and the Project must be fully occupied within 90 days of completing construction.

When completed, the Motel 6 Project will generate up to 88 units of permanent affordable housing and will be the first deed-restricted affordable housing units credited towards the City's 6<sup>th</sup> Cycle Regional Housing Needs Assessment (RHNA) allocation of 11,760 new housing units.

## **HOME Investment Partnerships Program**

The City of Costa Mesa is a recipient of two U.S. Department of Housing and Urban Development (HUD) grant program funds, the Community Block Grant (CDBG) Program and the HOME Investment Partnerships Program (HOME).

The Housing and Community Development Division (HCD) of the Development Services Department is responsible for administering the City's CDBG and HOME grants. CDBG and HOME-funded activities must address the needs outlined in the City's Consolidated Plan. The Consolidated Plan is a five-year planning document required by HUD for all communities receiving federal community development grant funds. The Annual Action Plan is the one-year expenditure plan for the use of HUD's annual allocation of funds.

On May 3, 2022, the City Council approved the FY 2022-2023 Annual Action Plan, which included the authorization to issue a Request for Qualifications (RFQ) to solicit applications for funding to support permanent affordable housing in the City using HOME Program funds. The total funds allocated to this effort for 2022-2023 include HOME program income and prior year uncommitted HOME entitlement funds in the amount of \$2.3 million.

## **Request for Qualifications (RFQ)**

On July 11, 2022, the City issued RFQI #23-01 soliciting proposals for HOME funds for affordable housing development projects. The RFQ was published on the City website, on Planet Bids, and an electronic letter was emailed to interested developers and nonprofit organizations who had previously requested to be informed of affordable housing development opportunities and funding.

Following the release of RFQ #23-01, Community Development Partners (CDP) and Mercy House (as co-owners, co-developers, and managing partners) submitted a proposal identifying a funding

gap of \$1.5 Million for the Motel 6 project. The proposal met the minimum threshold requirement of 75 points, thus qualifying the proposal to be brought before City Council for review and potential funding award.

On July 19, 2022, the City Council approved an award of \$1.5 Million in HOME funds to CDP to develop the Motel 6 into permanent affordable housing. All City HOME funds will be disbursed to the Project as repayable loans subject to a Regulatory Agreement, which will stipulate the required terms and conditions of the loan.

### **Local Match for Homekey Funds**

On November 16, 2021, the City Council approved a total allocation of \$3.5 million in ARPA funds as local match for “one or two” potential Homekey projects. Since the second project is no longer moving forward as a Homekey project, the total allocation of \$3.5 million in ARPA funds was approved by the City Council for this project. This funding, when added to the HOME funds of \$1.5 million, results in a total of \$5 million for this project and the creation of much needed additional affordable housing in Costa Mesa.

### **Summary of Awarded City Funding**

| <b>Funding Source</b>                       | <b>Approved</b> | <b>Type</b> | <b>Amount</b>      |
|---------------------------------------------|-----------------|-------------|--------------------|
| American Rescue Plan Act (ARPA)             | 11/16/21        | Grant       | \$3,500,000        |
| HOME Investment Partnerships Program (HOME) | 7/19/22         | Loan        | \$1,500,000        |
| <b>Total Financial Award</b>                |                 |             | <b>\$5,000,000</b> |

### **Request For Additional Funding**

On October 27, 2022, City and County staff were notified by the Developer of an unanticipated rise in construction costs due to inflation and supply chain challenges being experienced throughout the nation. County staff will be taking a recommendation to their Board of Supervisors on December 6, 2022 to award an additional \$850,000 to CM Mercy House CHDO LLC for the Project, which will cover 50% of the increased costs.

The other 50% of the funding gap of \$850,000 is recommended by Staff to be funded by the City's Low and Moderate Income Housing Fund, to ensure completion of the project.

### **Low/Moderate Income Housing Asset Fund**

The Low/Moderate Income Housing Asset Fund (LMIHAF) can be used to develop affordable housing for those at or below 80% AMI. Per the FY 20-21 Housing Authority Annual Report as Housing Successor, as of December 31, 2021, the City's LMIHAF had an ending balance of \$3.7 million making it an ideal source to help fund the gap.

**ANALYSIS:**

The Motel 6 Project will provide permanent affordable housing for eighty-seven (87) individuals certified as extremely-low (30% AMI) and very-low (50% AMI) income. The successful operation of the Project relies upon the provision of on-site case management to these vulnerable veterans, seniors and at-risk households.

An additional contribution of \$850,000 to the Motel 6 project will allow the Developer to complete the Project as originally intended by subsidizing the increased material costs and construction. The Developer has already reduced other costs to reduce the funding gap to the greatest extent possible. This final funding allocation, in concert with the County's contribution of an equal amount, will help the project come to final fruition.

**Summary of *Proposed* City Funding**

| <b>Funding Source</b>                       | <b>Approved</b> | <b>Type</b> | <b>Amount</b>      |
|---------------------------------------------|-----------------|-------------|--------------------|
| American Rescue Plan Act (ARPA)             | 11/16/21        | Grant       | \$3,500,000        |
| HOME Investment Partnerships Program (HOME) | 7/19/22         | Loan        | \$1,500,000        |
| LMIHAF                                      | TBD             | Loan        | \$ 850,000         |
| <b>Total Financial Award</b>                |                 |             | <b>\$5,850,000</b> |

**ALTERNATIVES:**

The City Council may choose not to approve the additional contribution of \$850,000 to the Project. If the City does not approve the additional funding, the Project will lack the financing it requires to move forward and it will not take place.

**FISCAL REVIEW:**

Upon City Council approval, LMIHAF funds in the amount of \$850,000 will be appropriated for this project. There are sufficient fund balances to support this request.

**LEGAL REVIEW:**

The City Attorney's Office has reviewed this report and approved as to form.

**CITY COUNCIL GOALS AND PRIORITIES:**

This item supports the following City Council Goal:

- Diversify, Stabilize and Increase Housing to Reflect Community Needs

**CONCLUSION:**

Staff recommends the City Council:

1. Approve an appropriation and allocation of \$850,000 in Low/Moderate Income Housing Asset Funds for development of the Motel 6 Project Homekey Project.
2. Authorize the City Manager or their designee to execute the Funding Agreement and all associated documents, as needed, to bring the project to fruition.