



CITY OF COSTA MESA

77 Fair Drive
Costa Mesa, CA 92626

Agenda Report

File #: 23-1203

Meeting Date: 7/18/2023

TITLE:

CITY COUNCIL DIRECTION REGARDING POTENTIAL BEHAVIORAL HEALTH UNIT AT COSTA MESA BRIDGE SHELTER THROUGH GRANT FUNDED PARTNERSHIP WITH COUNTY

DEPARTMENTS: CITY MANAGER'S OFFICE, PUBLIC WORKS DEPARTMENT, FINANCE DEPARTMENT

PRESENTED BY: LORI ANN FARRELL HARRISON, CITY MANAGER, NATE ROBBINS, NEIGHBORHOOD IMPROVEMENT MANAGER, RAJA SETHURAMAN, PUBLIC WORKS DIRECTOR, CAROL MOLINA, FINANCE DIRECTOR

CONTACT INFORMATION: NATE ROBBINS, NEIGHBORHOOD IMPROVEMENT MANAGER, (714)754-5274

RECOMMENDATION:

City Council direction and authorization is requested regarding the following:

1. Potential joint application with the Orange County Health Care Agency to the California Department of Health Care Services for Behavioral Health Bridge Housing Program funds to create a new 50 bed Behavioral Health Unit at the Costa Mesa Bridge Shelter for individuals with Serious Mental Illness (SMI) or Substance Use Disorder (SUD), and appropriate all awarded funds to the Housing Authority's Shelter Budget.
2. Allocation of up to \$1.27 million in American Rescue Plan Act funds as the City's portion of gap financing to undertake and complete the \$5.0 million in capital improvements needed to convert 15,000 square ft. of existing warehouse space in Unit B of the Bridge Shelter for a new Behavioral Health Unit, including \$3.75 million in capital grant funding from the County for this purpose.
3. Authorize the City Manager or her designee to execute agreements and amendments to agreements to bring the Bridge Shelter Expansion Project to fruition.

BACKGROUND:

Costa Mesa Bridge Shelter

In March 2019, the City Council approved the purchase and renovation of the building located at 3175 Airway Avenue as the future location of the Costa Mesa Bridge Shelter. While the entire building consists of over 27,000 square-feet of floor space, the Bridge Shelter currently occupies one-half of the building (Unit B), with the other half of the building (Unit A) being leased to a local business by the City. The Bridge Shelter is currently funded for a total of 88 beds. The total cost of operating the existing bed capacity at the Shelter is approximately \$2.6 million per year.

In November 2020, the cities of Costa Mesa and Newport Beach (“Cities”) entered into a Memorandum of Understanding (MOU) to share the costs of developing and operating the 72 beds originally funded for the Bridge Shelter at that time. Later, in June 2023, the MOU was amended to increase Shelter capacity to 88 total beds. As a result, 25 of the Shelter’s beds are set aside for exclusive use by Newport Beach clients, 60 beds are allocated for exclusive use by Costa Mesa clients, as well as three (3) beds for emergency use by both Cities.

Recent State Legislation

On August 31, 2022, Senate Bill 1338 (SB 1338) was passed into law enacting the Community Assistance, Recovery, and Empowerment (CARE) Act, which authorizes the creation of a voluntary CARE agreement, or a court-ordered CARE plan, and implements services to provide behavioral health care to adults diagnosed with Serious Mental Illness (SMI) and/or Substance Use Disorder (SUD).

Behavioral Health Bridge Housing Program

On September 6, 2022, Assembly Bill 179 (AB 179) was signed into law authorizing amendments to the Budget Act of 2022. Included in the amendments was the creation of the Behavioral Health Bridge Housing (BHBH) Program via reallocation of \$1.5 billion to the Department of Health Care Services (DHCS) for allocation to counties to support planning, implementation and infrastructure costs for the CARE Act. The primary focus of the BHBH Program is to assist individuals experiencing homelessness who have serious behavioral health conditions that prevent them from accessing resources and securing permanent housing.

On February 24, 2023, the DHCS released a Request For Applications (RFA), which made available \$907 million to the 58 county Behavioral Health Agencies in California, including up to \$31.6 million available to the Orange County Health Care Agency (OCHCA).

The OCHCA has expressed interest in collaborating with the City of Costa Mesa (City) to augment behavioral health beds and services for individuals diagnosed with SMI and/or SUD through the expansion of the Bridge Shelter through the creation of a new 50 bed unit in the currently leased warehouse portion (Unit A) of the facility.

ANALYSIS:

Behavioral Health generally refers to the effect of one’s behaviors and emotions on their overall well-being, with a specific focus on mental health and substance use disorders. According to the Substance Abuse and Mental Health Services Administration (SAMHSA) 20% of adults in the U.S. have a clinically significant mental health or substance use disorder. Further, as identified in the 2022 Point In Time (PIT) Count, of the 4,996 adults experiencing homelessness in Orange County, 33% (1,633 people) report struggling with substance use and 29% (1,445 people) are diagnosed with a mental health disorder. As seen in the statistics above, mental health and substance use disorders affect all people regardless of housing status, yet many people fail to receive treatment due to the cost and scarcity of behavioral health services.

While the City has a comprehensive system of care for those experiencing homelessness, one of the last remaining gaps is the provision of behavioral health services. The absence of high-quality behavioral health care means barriers to employment and housing remain unaddressed, which significantly reduces a client's chances of securing and retaining permanent housing.

The BHBH Program provides funding to expand infrastructure and services to augment the behavioral health system for those diagnosed with SMI and/or SUD. Specifically, the BHBH Program provides formula grant funding for the creation and ongoing operation of permanent or interim housing units, coupled with wrap-around behavioral health services. Approved capital improvement projects are eligible to receive up to \$75,000 per behavioral health bed created, as well as operating subsidies for the provision of supportive services once the beds are made available to those in need, through June 30, 2027.

Project Overview

The Behavioral Health Unit Project contemplates the creation of 50 new behavioral health beds and associated service offices through construction of the current warehouse space in the second half of the building (i.e., Unit A), as well as the installation of an elevator and tenant improvements to office space currently located on the second floor of the Shelter (i.e., Unit B).

Project Budget - Capital Improvements

The BHBH Program provides capital grants of up to \$75,000 per bed to expand behavioral health infrastructure. The creation of 50 behavioral health beds could make available as much as \$3,750,000 to undertake the necessary improvements. The estimated cost to complete the Project is \$5,020,000 and consists of the following scope:

Scope	Estimated Cost
Design	\$400,000
Utility Agency Fees	\$70,000
Construction Support Services	\$600,000
Demolition	\$100,000
Structural / Framing	\$850,000
HVAC / Roofing / Insulation	\$400,000
Plumbing	\$250,000
Electrical	\$300,000
Fire Protection	\$100,000
IT	\$100,000
Security	\$100,000
Flooring and Finishes	\$200,000
Elevator System	\$400,000
2nd Floor Offices Remodel	\$400,000
Furniture	\$250,000
Contingency	\$500,000
TOTAL PROJECT COST:	\$5,020,000
TOTAL BHBH AWARD:	\$3,750,000
FINANCIAL GAP:	\$1,270,000

As seen in the table above, an appropriation of up to \$1,270,000 in City funds is required to complete the proposed capital improvements.

Capital Improvement Timeline

The BHBH program contains the following infrastructure requirements:

“Complete all bridge housing start-up infrastructure activities and make beds available within 1 year of contract execution. Grantees that make beds available within 90 and 180 days will receive a competitive advantage in future rounds of BHBH Program funding, based on the number of beds made available within these time frames.”

Clearly, the State’s objective is to help facilitate the quick expansion of bridge housing opportunities for SMI and SUD populations by restricting funding opportunities to projects that can be completed in one year. However, the realistic estimated time to complete construction for such a project is 32 months, with a projected completion date of March 14, 2026, and consists of the following action items:

Action Item	Duration (Days)	Estimated Completion
City Council Approval	1	July 18, 2023
Prepare and Publish A&E* Services RFP	21	August 8, 2023
A&E Services RFP Posting Duration	30	September 7, 2023
A&E Services Proposal Evaluation Committee Review	21	September 28, 2023
A&E Services Fee Negotiations and Staff Report Prep	21	October 19, 2023
A&E Services City Council Award	45	December 3, 2023
A&E Services PSA Execution	30	January 2, 2024
Floor Plan and Utility Scoping Phase	45	February 16, 2024
Environmental and Planning Division Zoning Phase	60	April 16, 2024
A&E Design Phase	180	October 13, 2024
Construction Management RFP Phase (Concurrent)	0	October 13, 2024
A&E Design Permitting	45	November 27, 2024
Construction Bidding and City Council Award Phase	120	March 27, 2025
Construction PWA Execution	30	April 26, 2025
Construction Phase	270	January 21, 2026
Close Out Phase	21	February 11, 2026
Building, Fire, and State Department Occupancy Approval	10	February 21, 2026
Furnishings Phase	21	March 14, 2026
TOTAL	971	March 14, 2026

*Architectural & Engineering

A compressed timeline is not feasible as the above estimated timeline is already aggressive and considers all requirements of project implementation in accordance with the State's Public Works Contract Code requirements. The project implementation already assumes the use of consultants and contractors, as needed. However, there is still a need for staff oversight and management to ensure that the project is implemented in accordance with City, County and State standards. This oversight has to be provided by the City's Public Works Department and the City Engineer, as the individuals licensed and qualified to conduct such oversight.

Potential Impact to the Current Approved and Budgeted CIP

The City Council approved the 2023-24 Capital Improvement Program (CIP) with a total of 46 projects with approximately \$31.1 million in funding (see Attachment). The CIP adopted by the City Council does not include this Behavioral Health Shelter project. In addition, there are 90 projects that are ongoing from prior fiscal years with total funding of approximately \$55.6 million that are in different stages of development and still underway. As the current CIP includes numerous projects with state and county grant funding, staff proposed a priority ranking of projects during the budget making process to ensure that grant projects can be implemented within stated timelines, referred to as "Phase 1" CIP projects.

It is important to note, that a decision to pursue the grant funding for a new 50 bed Behavioral Health Project at the Bridge Shelter, even if required timelines were amended by the County or State (which is not likely given State legislation and intent), there will need to be a re-assignment of staff from other approved CIP projects, including grant-funded projects, to this project, as there is significant overlap in the timelines for completion of all of these projects. Again, this would need to be done even with the hiring of an expert construction management contractor to oversee the project, in tandem with the City's engineers.

This would potentially significantly impact the delivery of the following projects based on current State grant expiration deadlines:

- Fire Station 4 Training Tower (grant project with 2024 deadline)
- Fairview Park Mesa Restoration (grant project with 2025 deadline)
- Fairview Park Bluff Stabilization (grant project with 2025 deadline)
- Newport Boulevard Frontage Road Rehabilitation (ongoing project)
- Storm Drain Master Plan (ongoing project)

Given current resources, it is anticipated the above projects could be significantly delayed and/or a potential loss of grant funding. Other ongoing projects and newly approved CIP projects may experience delays with the addition of this major project. While this is a unique grant opportunity, the required capital infrastructure timelines are problematic.

Project Budget - Shelter Operations

The BHBH Program provides ongoing operating subsidies for the provision of shelter services to individuals occupying a BHBH bed. Unlike the formula grant utilized to determine one's award of capital funds, operating funds are negotiated based on the actual costs associated with operating the BHBH beds. The current annual cost to operate the 88 beds at the existing Bridge Shelter is approximately \$2.6 million which includes Shelter operations, kitchen operations, and facility maintenance/utilities. At a later date and contingent upon an award of capital funds, if approved, an MOU with the OCHCA would be executed for an annual award of approximately \$1.9 million to a shelter operator to offset the cost of operating the 50 Behavioral Health beds. Per State Guidelines, the funding would begin upon the completion of the project, which is projected at March of 2026 and would expire on June 30, 2027. The City would need to identify a structural ongoing source of funding after this date in order to continue the program. The County has expressed a verbal commitment to work with the City to help secure grants and other funding sources to help offset future costs once this funding expires.

Project Budget - Additional Services

The BHBH Program provides ongoing funding for the provision of specific services to guests occupying BHBH beds, including: rental assistance for both supportive housing and specialized care facilities (i.e., detox and sober living), financial assistance to purchase essential household items upon securing a housing unit, as well as the potential to hire an additional Outreach Worker to engage unsheltered individuals diagnosed with SMI and/or SUD. The City anticipates requesting an additional estimated \$280,000 per year to offset the cost of providing these additional services.

Shelter Operations

It is anticipated the Project would have little effect on the day-to-day operations of the existing 88 beds in Unit B of the Shelter. However, while the Cities will maintain control over nearly all aspects of the guest selection process, CARE Court participants referred to the Bridge Shelter will receive first priority for entry into the Program. Further, beds that are unable to be filled by local clients must be made available to non-Costa Mesa/Newport Beach residents experiencing homelessness within the Central Service Planning Area (SPA). Both CARE Court and Non-Costa Mesa/Newport Beach clients exiting the Shelter will be transported back to their city of origin and the newly-vacant bed will, once again, be made available for occupancy by a Costa Mesa/Newport Beach client, assuming no CARE Court participant is on a waiting list for placement.

Mental illness and substance use pose significant barriers to accessing services, including emergency shelter. As a result, many individuals suffering from SMI and/or SUD are unable to thrive in a shelter setting absent behavioral health care. The incorporation of additional office space at the Shelter avails the opportunity for local providers to coordinate on-site delivery of behavioral health services, thus rendering the Shelter a more viable option for many who may have never accessed the resource. Further, current guests of the Shelter diagnosed with SMI and/or SUD will be transitioned to a BHBH bed, which will decrease the rate of recidivism and greatly improve the likelihood of guests achieving a positive outcome.

The Behavioral Health Bridge Shelter Project provides an opportunity to use grant funds to significantly reduce the City's cost of expanding the Shelter, increases overall Shelter capacity by 50 beds, expands the Shelter's service model to make the resource available for a broader range of unsheltered clientele, and augments services available to current guests who may otherwise have left their behavioral health conditions untreated.

ALTERNATIVES:

The City Council can direct staff to pursue alternative funding options to increase capacity from 88 to 100 beds and/or provide Behavioral Health Services at the existing Bridge Shelter (Unit B).

FISCAL REVIEW:

The Fiscal Year 2023-24 Amended Budget for the Homeless Services and Shelter Program totals \$3.9 million. Of this amount, the City of Newport Beach contributes \$1.3 million, State grant funding of \$821,579, and the balance amount of \$1.8 million is covered by the General Fund and fund balances. The County of Orange has designated up to \$8.6 million in Round One Behavioral Health Bridge Housing funds to cover program service expenses for individuals occupying a BHBH bed; however, funding ends on June 30, 2027. Based on the construction schedule, the shelter expansion portion would not be open for new clients until March 2026. As a result, program funding would not be made available to the City until the program expenditures start which is currently estimated in March 2026 at the earliest. Based on the estimated \$1.9 million in annual costs to manage the Behavioral Health Program, the City may receive \$2.1 million of funding for the first twelve months of operation (including a 3% CPI). In that case, the funding may only cover the first fourteen months of operations since funding lapses on June 30, 2027.

Thereafter, the City can apply to continue funding in Round Two, however, at this time there are no funds set aside for Round Two. If no other funding source were available, the City's General Fund contribution would grow by at least \$2.2 million, assuming contracts increase 3% per year, for an estimated total of \$4.0 million for the City's Bridge Shelter Program.

Based on the City of Costa Mesa's financial outlook of the General Fund, it is unknown at this time if there would be sufficient available funds to cover this cost, among other fixed cost increases.

Finally, the legislation language specifically states that the construction must be finalized within one year of the contract approval date. Since this stringent construction schedule is not feasible, the City could risk the \$3.8 million in grant funds for any construction costs expended. While we have received assurances that this is not likely the case, we have not been able to secure such a commitment in writing; hence the precaution.

LEGAL REVIEW:

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

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the following City Council Goals:

- Diversify, Stabilize and Increase Housing to Reflect Community Needs
- Strengthen the Public's Safety and Improve the Quality of Life

CONCLUSION:

City Council direction and authorization is requested regarding the following:

1. Potential joint application with the Orange County Health Care Agency to the California Department of Health Care Services for Behavioral Health Bridge Housing Program funds to create a new 50 bed Behavioral Health Unit at the Costa Mesa Bridge Shelter for individuals with Serious Mental Illness (SMI) or Substance Use Disorder (SUD), and appropriate all awarded funds to the Housing Authority's Shelter Budget.
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