



City of Costa Mesa

Agenda Report

77 Fair Drive
Costa Mesa, CA 92626

File #: 22-791

Meeting Date: 7/19/2022

TITLE:

COMMITMENT OF \$1,500,000 OF HOME INVESTMENT PARTNERSHIP FUNDS TO COMMUNITY DEVELOPMENT PARTNERS FOR THE MOTEL 6 HOUSING PROJECT LOCATED AT 2274 NEWPORT BOULEVARD

DEPARTMENT: ECONOMIC AND DEVELOPMENT SERVICES DEPARTMENT/HOUSING AND COMMUNITY DEVELOPMENT

PRESENTED BY: NATE ROBBINS, NEIGHBORHOOD IMPROVEMENT MANAGER AND MIKELLE DAILY, GRANT ADMINISTRATOR

CONTACT INFORMATION: MIKELLE DAILY, GRANT ADMINISTRATOR, 714-754-5678

RECOMMENDATION:

Staff recommends the City Council:

1. Approve the allocation and appropriation of \$1,500,000 in HOME Investment Partnerships Program Funds (HOME) fund balance or American Rescue Plan Act funds (ARPA) for the Motel 6 Housing Project, contingent upon the completion of environmental review and a HOME Subsidy Layering Review.
2. Authorize the City Manager to execute a commitment letter with Community Development Partners ("CDP") for \$1,500,000 for the Motel 6 housing project.

BACKGROUND:

Motel 6 Housing Project

The Motel 6 Housing Project ("Project") is located at 2274 Newport Boulevard, Costa Mesa (APN 426-053-15). The Project site is approximately 1.16 acres and contains buildings currently occupied by Motel 6 Costa Mesa, consisting of 94 guest rooms for commercial motel/hospitality use. The proposed Project contemplates the conversion of the motel property into 88 units of permanent affordable housing, of which, 30 will be set-aside for veterans experiencing homelessness, 10 will be set-aside for households experiencing homelessness that are also eligible to receive Mental Health Services Act (MHSA) assistance, and the remaining 48 will be set-aside for senior citizens (age 62+) earning 50% or less of the Area Median Income (AMI). The Project has already secured funding commitments from the Homekey Program, the Orange County Housing Finance Trust, the County of Orange and the 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 persons and at-risk households by subsidizing the acquisition and conversion of motels into permanent housing.

Motel conversions to permanent housing and participation in the Homekey Program was identified as City Council objectives during the City Council's goal-setting retreat held in September 2021. On November 16, 2021, the City Council directed staff to collaborate with the County of Orange in submitting a Homekey grant application and approved a funding commitment of up to \$3.5 Million in American Rescue Plan Act (ARPA) funds as a local match (further described below). A Homekey application was submitted and on April 25, 2022, the Motel 6 Housing Project was awarded \$10,675,000 in Homekey funds. All construction and/or rehabilitation must be completed within 12 months of the date of grant award and the Project must be fully occupied within 90 days of construction completion.

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

Local Match for Homekey Funds

On November 16, 2021, the City Council approved a total allocation of \$3,500,000 in ARPA funds as local match for "one or two" potential Homekey projects. At the time, the Motel 6 housing project anticipated requesting \$2,000,000 and a second project that is no longer contemplating Homekey funding anticipated requesting \$1,500,000. Since the second project is no longer moving forward as a Homekey project, the remaining \$1,500,000 has been reallocated to the Motel 6 Project for a total local commitment of \$3,500,000 in ARPA funds.

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 Costa Mesa City Council approved the FY 2022-2023 Annual Action Plan, which included authorization to issue a Request for Qualifications (RFQual) to solicit applications for funding to support permanent affordable rental 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 \$2,319,368.

Request for Qualifications (RFQual)

On July 11,2022 the City issued RFQual #23-01 soliciting proposals for HOME funds for affordable housing development projects. The RFQual 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.

The RFQual process is open ("Open RFQual Process") and funds are available to eligible applicants on a continuous basis, rather than on a competitive basis. As proposals are received, a staff review panel performs a minimum threshold review to ensure programmatic and RFQual-process requirements are satisfied. If minimum threshold review requirements are satisfied, the application may be considered for funding at the City's discretion.

HOME funds would be disbursed as repayable loans subject to a Regulatory Agreement approved by the City Council at a later date, which would stipulate the required terms and conditions of the loan.

ANALYSIS:

Following the release of RFQual #23-01, Community Development Partners (CDP) submitted a proposal identifying an additional funding gap of \$1.5 Million for the Motel 6 project. The proposal review panel conducted a minimum threshold review and determine if CDP's proposal could be recommended for funding.

CDP's proposal met the minimum threshold requirement of 75 points, qualifying the proposal to be brought before City Council for review and potential funding at the City's discretion.

Staff is recommending that \$1.5 Million in HOME funds (which are already earmarked for affordable housing development projects) be allocated to the Motel 6 project to supplement other secured project funding, to close the identified funding gap and to enable construction of the project to move forward on schedule.

Developer: **Community Development Partners**

Project Name: **Motel 6 Housing Project**

Award Recommendation:

American Rescue Plan Act (ARPA) funds approved for Homekey projects (November 16, 2021 City Council Meeting)	\$3,500,000
HOME Investment Partnerships Program (HOME) funds (July 19, 2022 City Council Meeting)	\$1,500,000
Total Financial Award	\$5,000,000

A draft Funding Commitment Letter is provided as an attachment. It provides the enforceable funding

commitment from the City of \$1,500,000 in HOME Investment Partnerships Program funds for development of the Motel 6 housing project. The Commitment Letter for HOME funds is contingent upon CDP verifying all other sources of funding needed to fully fund the project, as well as staff's successful completion of the federally-required environmental review process under the National Environmental Policy Act (NEPA) and a HOME Subsidy Layering Review. A HOME Subsidy Layering Review is a requirement of HOME funds and is the process in place to confirm that project funding has been secured to fully fund the project and that HOME funds are being appropriately used as "gap funding".

As an alternative to HOME funds, i.e. if the conditions identified in the Commitment Letter regarding the use of HOME funds are unable to be achieved, the Letter will be updated to replace the \$1,500,000 in HOME funds with \$1,500,000 in ARPA funds. These funds would be in addition to the prior allocation of \$3,500,000 in ARPA funds for projects awarded Homekey funds as approved by the City Council on November 16, 2021.

If approved, staff would return to the City Council at a later date for approval of a Regulatory Agreement for the project, stipulating loan terms and conditions.

ALTERNATIVES:

The City Council can choose not to provide additional funding to the Motel 6 Project. If the City does not provide additional matching funds (HOME or ARPA), the project will lack the financing it needs to move forward and the Project will not take place.

FISCAL REVIEW:

This action does not have a fiscal impact to the General Fund. HOME funds or ARPA funds (as appropriate) are available for allocation to the Motel 6 Housing Project in the amounts listed in this report.

LEGAL REVIEW:

The City Attorney's Office has reviewed and approved this agenda report 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

CONCLUSION:

Staff recommends the City Council:

1. Approve the allocation and appropriation of \$1,500,000 from HOME Investment Partnerships Program Fund (HOME) fund balance or American Rescue Plan Act funds (ARPA), contingent upon the completion of environmental review and a HOME Subsidy Layering Review.
2. Authorize the City Manager to execute a commitment letter with Community Development

Partners (“CDP”) for \$1,500,000 for the Motel 6 housing project.