



CITY OF COSTA MESA

77 Fair Drive
Costa Mesa, CA 92626

Agenda Report

File #: 23-1204

Meeting Date: 6/20/2023

TITLE:

COMMITMENT OF \$4,000,000 TO AMERICAN FAMILY HOUSING FOR THE TRAVELODGE NORTH HOUSING PROJECT AS PART OF HOMEKEY ROUND 3

DEPARTMENT: CITY MANAGER'S OFFICE

PRESENTED BY: NATE ROBBINS, NEIGHBORHOOD IMPROVEMENT MANAGER

CONTACT INFORMATION: NATE ROBBINS, NEIGHBORHOOD IMPROVEMENT MANAGER
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RECOMMENDATION:

Staff recommends the City Council:

1. Approve a commitment of \$2,500,000 in Low- and Moderate-Income Housing Asset Funds and \$1,500,000 in ARPA funds to American Family Housing for conversion of the Travelodge North Motel as a Homekey Round 3 permanent housing project.
2. Authorize the City Manager or their designee to execute a Commitment Letter with American Family Housing in the amounts listed above for the Travelodge North Homekey project.
3. Authorize the City Manager to execute all applicable agreements to bring the Travelodge North Homekey project to fruition.

BACKGROUND:

Homekey Program

On July 16, 2020, the State of California's Department of Housing and Community Development (HCD) announced the availability of \$600 million in Homekey Round 1 funding to rapidly acquire and activate housing for people experiencing homelessness and impacted by COVID-19.

On September 9, 2021, HCD announced the availability of \$1.45 billion in Homekey Round 2 funds to continue the State's effort to acquire and activate housing for those experiencing homelessness. The County of Orange ("County") was awarded \$10,150,000 in Homekey Round 2 funds to acquire and convert the Motel 6 South located at 2274 Newport Blvd, Costa Mesa, into 87 units of permanent affordable housing. Subsequently, the Costa Mesa City Council approved a total allocation of \$5,850,000 as local matching funds to assist in the conversion of the Motel 6 Homekey Project.

On March 29, 2023, HCD announced the availability of \$736 million in Homekey Round 3 funds to expand the State's supply of affordable and supportive housing for those experiencing or at-risk of

homelessness. Following HCD's announcement of Homekey Round 3, the County released a Request For Information (RFI) to procure a list of developers with potential housing projects meeting Homekey eligibility and feasibility requirements. A local nonprofit, American Family Housing (AFH), responded to the RFI with a proposal for the acquisition, conversion, and ongoing operation of the Travelodge North located at 1400 Bristol Street, Costa Mesa, as Permanent Supportive Housing for those experiencing or at-risk of homelessness ("Project"). The County has preliminarily accepted AFH's proposal and plans to take the Project to their Board of Supervisors for final approval in July 2023.

ANALYSIS:

One of the goals of the Costa Mesa City Council is to diversify, stabilize and increase housing to reflect community needs. While the City boasts a comprehensive system of care for those experiencing and at-risk of homelessness, one of the few remaining gaps is the availability of permanent affordable housing coupled with intensive wrap-around services, otherwise known as Permanent Supportive Housing (PSH). AFH's proposed project would add 78 total units of housing (76 units of PSH and 2 Manager's Units), which would both diversify and increase the City's housing stock. Additionally, upon completion, all 78 units will be credited toward the City's 6th Cycle Regional Housing Needs Assessment (RHNA) allocation of 11,760 new housing units.

American Family Housing

AFH is a nonprofit organization based out of Midway City with nearly 40 years of experience in the provision of services to those experiencing and at-risk of homelessness, as well as the development and operation of affordable, supportive and bridge housing. AFH currently owns and operates 49 housing projects containing 386 affordable units in Los Angeles and Orange Counties. Three of these projects received Homekey Round 2 awards and are currently in development.

With a staff of 95 employees, over 20 social work interns and a strong base of volunteerism, AFH has the capacity and expertise to successfully complete and operate the Travelodge North Homekey Project.

Project Site

The Travelodge North is located at 1400 Bristol Street, Costa Mesa, at the southwest corner of Red Hill Avenue and Bristol Street, which is roughly 100 yards from the City of Newport Beach. The 3.5-acre parcel is currently improved with 120 motel rooms and includes amenities such as a food service area, large lobby with office space and an on-site restaurant.

The property is situated within minutes of all essential services, including a bus stop, grocery store, pharmacy, medical care, a park and a library. AFH is currently in escrow to purchase the Travelodge North for an acquisition price of \$24,000,000, or \$200,000 per unit, with an estimated closing date of February 29, 2024.

Project Scope

AFH is proposing an acquisition and construction project to convert the motel into permanent housing. The Project includes the renovation of all exterior spaces including façade and landscaping improvements, demolition of an existing pool to establish a community courtyard, and path-of-travel upgrades to comply with Americans with Disabilities Act requirements; renovation of all interior spaces including floor-to-ceiling upgrades of all living quarters, installation of kitchenettes, and reconfiguration of existing office space for the provision of on-site services.

Due to the smaller size of the existing rooms (average size is 250 sq. ft), AFH is proposing to demolish 42 of the 120 existing units to create 76 studio and one-bedroom apartments. These renovations will bring all units into compliance with minimum floor space requirements and provide additional square-footage to accommodate the kitchenettes.

Project Budget

The estimated total development cost to complete the Travelodge Homekey Project is \$45,386,520 and is funded from the following sources:

Sources of Funding	Amount
Homekey Program Award	\$27,700,000
Homekey - Relocation	\$ 750,000
City of Costa Mesa	\$ 4,000,000
City of Newport Beach	\$ 3,000,000
County of Orange HOME	\$ 2,400,000
County of Orange MHSA	\$ 4,421,520
Private Loan	\$ 3,115,000
TOTAL SOURCES	\$45,386,520

As in the table above, AFH is anticipating to receive funding from five different sources:

- 1. Homekey** - The Homekey Program provides formula grant funding based on the number of rooms being acquired. AFH is anticipating an award of \$240,000 per unit for a total award of \$28,450,000 to acquire and develop the 120-room Travelodge into 76 permanent housing units.
The Homekey Program also provides funding to develop and administer a relocation plan, as needed, to ensure the housing needs of current residents are addressed.
- 2. City of Newport Beach** - City of Newport Beach staff intend to take a recommendation to their City Council in July 2023 to approve an award of \$3,000,000 in local matching funds to AFH for conversion and ongoing operation of the Travelodge North as 76 units of PSH. Newport Beach's award of funds is contingent upon the award of all other sources of funding, as well as due diligence items typical of similar affordable housing projects.

3. City of Costa Mesa - The City of Costa Mesa ("City") has funds available to support an award of \$4,000,000 to AFH from the following sources:

- a. Low- and Moderate-Income Housing Asset Fund (LMIHAF) - The Costa Mesa Housing Authority, as Successor to the former Costa Mesa Redevelopment Agency, has a current, unencumbered balance in the LMIHAF of \$2.9 million which can be expended on the development of affordable housing. Staff recommends maintaining a balance in the LMIHAF as a portion of these funds are expended on the ongoing administration and monitoring of City-funded housing. Funds awarded from the LMIHAF will be in the form of a 3% simple interest residual receipts loan to be repaid over the life of the Project from a portion of its positive cash flow.
- b. American Rescue Plan Act (ARPA) - The City has a current, unencumbered balance of ARPA funds, which can be expended on the development of affordable housing. ARPA funds awarded will be in the form of a grant and will not be repaid.

As with Newport Beach, all City funds awarded to AFH for the Project are contingent upon the award of all other sources of funding, as well as positive outcomes regarding required pre-development activities (i.e. environmental review and financial feasibility analysis).

4. County of Orange - On March 20, 2023, the County released the 2023 Supportive Housing Notice of Funding Available (NOFA) making available \$67.1 million from various sources, including HOME Investment Partnership (HOME) and Mental Health Services Act (MHSA) funds, to promote the development of supportive housing. As part of this NOFA, AFH intends to apply to the County for two development loans from the following sources:

- a. HOME Funds - \$2,400,000
- b. MHSA Funds - \$4,421,520

Further, in order to support the ongoing operations of the Project, AFH intends to apply to the County for 48 Project-Based Housing Choice Vouchers, which subsidize the difference between the tenant's contribution and the determined rent for the specific unit.

The primary benefit of developing affordable housing are the long-term, deed-restricted affordability covenants. Per Homekey requirements, the Project will operate as PSH for a minimum term of 55 years. While the upfront cost to complete the Project is significant, when spread out over a term of 55 years, the total development cost is equivalent to \$750,273 per year, or \$9,619 per unit, per year.

Project Operations

Keeping in-line with their proven model of success, AFH will assume the role of both property manager and lead service provider. AFH will have staff on-site 24 hours a day to manage the property and address the needs of tenants. Additionally, AFH will partner with service providers specializing in various fields to ensure tenants have access to a full spectrum of resources.

All 76 PSH units will be for occupancy by currently unhoused, extremely-low income individuals earning at or below 30% of the Area Median Income (AMI). As mandated by the Homekey Program, tenant selection for the 48 units subsidized by County Project-Based Vouchers (PBV) will be routed

through the Coordinated Entry System (CES), which prioritizes individuals based on length of homelessness and the presence of a diagnosed disability. Further, of the 28 non-PBV units, the cities of Costa Mesa and Newport Beach will have exclusive access to 16 units and 12 units, respectively.

At a later date, AFH will submit to the City for review a Management and Operations Plan detailing every aspect of how they intend to manage and operate the Project.

Upon completion, the Project will be operated as Permanent Supportive Housing for a minimum term of 55 years.

Project Timeline

As with all Homekey projects, State HCD requires units to be available for occupancy within 12 months from the date of award. During Homekey Round 2, the average time from application to award was roughly six (6) months. Should both Newport Beach and Costa Mesa City Councils approve an award of funds to AFH, the County intends to pursue approval from their Board of Supervisors in July 2023, which would place the estimated date of completion sometime in early 2025.

ALTERNATIVES:

The City Council can choose to deny an award of funds to AFH for the Travelodge Homekey Project, which would result in the Project failing to move forward as it would lack sufficient gap financing.

FISCAL REVIEW:

There is no fiscal impact to the City's General Fund. The City's LMIHAF funds are restricted by the State and can only be used for low and moderate income housing development which Project Homekey programs are eligible for. Federal ARPA funds can also be used for permanent housing and to serve the needs of high risk individuals including those experiencing homelessness.

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 Goal:

- Diversify, Stabilize and Increase Housing to Reflect Community Needs

CONCLUSION:

Staff recommends the City Council:

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