



City of Costa Mesa

Agenda Report

77 Fair Drive
Costa Mesa, CA 92626

File #: 21-459

Meeting Date: 11/16/2021

TITLE:

HOMEKEY PROGRAM GRANT FUNDING OPPORTUNITIES FOR MOTEL CONVERSIONS TO PERMANENT SUPPORTIVE HOUSING FOR AT RISK AND HOMELESS POPULATIONS

DEPARTMENT: ECONOMIC AND DEVELOPMENT SERVICES DEPARTMENT

PRESENTED BY: SUSAN PRICE, ASSISTANT CITY MANAGER AND JENNIFER LE, DIRECTOR OF ECONOMIC AND DEVELOPMENT SERVICES

CONTACT INFORMATION: JENNIFER LE, jennifer.le@costamesaca.gov

RECOMMENDATION:

Staff recommends the City Council:

1. Direct staff to collaborate with the County of Orange and associated development partners to submit application(s) for the Homekey Program grant funding for the acquisition, rehabilitation and conversion of one or two motel locations proposed for permanent supportive housing; and
2. Find the Homekey Projects exempt from the California Environmental Quality Act (CEQA) per Section 50675.1.3 and Section 50675.1.4 of the Health and Safety Code (HSC) pursuant to the enacting legislation for the Homekey Program (AB 140 (2021)) and direct staff to file a Notice of Exemption; and
3. Approve a funding commitment of up to \$3.5 million for local match funding for one or two Homekey projects, contingent upon award of State Homekey Program grant; and
4. Authorize the City Manager to take any and all actions necessary to secure Homekey Program grant funds for City Council approved project location(s), including but not limited to executing local match funding commitment letters and funding agreements.

BACKGROUND:

The Homekey Program (“Homekey”) is a State grant funding program administered by the California Department of Housing and Community Development (HCD). Approximately \$1.45 billion in grant funding has been made available statewide as part of the Round 2 Notice of Funding Available (NOFA) from HCD. The NOFA, released on September 9, 2021, is provided as Attachment 1 to this report. The purpose of the grant funds is to continue the State’s efforts to rapidly expand housing for persons experiencing homelessness or at risk of homelessness and who are inherently impacted by or at increased risk due to the COVID-19 pandemic.

The State is subdivided into 8 regions for funding purposes, generally coinciding with Council of Government (COG) regions. Orange County is in the Southern California Region along with Imperial, Riverside, San Bernardino and Ventura Counties. Approximately \$102 Million in Federal Coronavirus State Fiscal Recovery Funds and \$21 Million in State General Fund is allocated to the Southern California subregion. Homekey funds are available to local public agencies, like cities and counties on a first come, first served basis for eligible projects. The grant application was released on September 30, 2021 and applications for the Southern California geographic sub region will be accepted until January 31, 2022. Any unused funds from the subregions will become available to projects statewide from February 1, 2022 through May 2, 2022, until all funds are awarded.

In April and June 2021, the County of Orange (County) released a Request for Information (RFI) to identify developers with experience for potential Homekey developments within the County of Orange jurisdiction. The County, OC Community Resources/Housing and Community Development, acting as the lead agency for this grant opportunity, is working with experienced developers to identify potential sites, coordinate with cities and facilitate a collaborative application to the State for the Orange County jurisdiction.

Motel conversions to permanent supportive housing and participation in the Homekey Program were identified as a City Council objective in the most recent goal setting leadership retreat held in September 2021. Participation in the Homekey Program would primarily be led by the County and the local developer applicants, with the City participating as a partner agency. Participation includes involvement in the application process, reviewing and processing any applicable local land use requirements as well as contributing local match funding to the projects, if awarded. If both projects are successfully awarded, the Homekey Program could generate up to 137 units, that will likely be the first deed restricted affordable housing units credited towards the City's Regional Housing Needs Assessment (RHNA) goal.

ANALYSIS:

The County, working with developers who responded to the RFI, has identified two potential motel conversion sites in Costa Mesa and has requested that the City confirm its interest to participate in the Homekey Program, to evaluate the viability of proposed locations and determine whether a local match source could be committed during the application, award and implementation phases of the program.

The County, working with a technical consultant firm, is currently evaluating the proposed projects using Section 304 Application Scoring Criteria in the NOFA as a baseline for determining how best to strengthen each proposals competitive merits for submission in response to the Homekey NOFA.

Project Summaries for Two Proposed Locations:

Mesa Inn is located at 2205 Harbor Boulevard, Costa Mesa. This location is a 43 unit motel, proposed by Illumination Foundation in conjunction with HomeAid Orange County. Target population

will be for homeless and chronic homeless individuals and couples, with a subset of the units for eligible persons that qualify for Mental Health Services Act (MHSA) programs. The proposal will provide direct Permanent Supportive Housing, with no interim use planned, the applicant anticipates minimal relocation assistance required, and is seeking up to \$1.5 million in capital match from the City of Costa Mesa if awarded Homekey grant funds from the State.

Motel 6 is located at 2274 Newport Boulevard, Costa Mesa. This location is a 94 unit motel, proposed by Community Development Partners, in conjunction with Mercy House. The target population is at risk or currently homeless individuals and seniors, age 62 and over. The proposal will provide direct Permanent Supportive Housing, with no interim use, with relocation assistance likely not applicable. The applicant is seeking up to \$2.0 million in capital match from the City of Costa Mesa.

Both developers are in the due diligence stage of their review to meet all the Homekey funding application requirements. This includes environmental, rehabilitation, relocation, if applicable, and other Homekey Program requirements.

The State Homekey Program provides direct housing opportunities for at risk and homeless populations by allowing funds to be utilized to acquire and convert motels to Permanent Supportive Housing, as one of the eligible uses of funding. Because the City operates the 72 bed Bridge Shelter on Airway Avenue, the Homekey Program could provide a seamless opportunity to stabilize this most vulnerable population where supportive services are provided on site, in the expedited Homekey permanent supportive housing model.

Key Components of the Homekey Program

1) Target populations and subpopulations

Under the Homekey Program, the primary target populations are homeless persons or persons at risk of homelessness. Eligible tenants would occupy this permanent supportive housing via referral through the Coordinated Entry System (CES) as required by the Homekey regulations and utilizing the Countywide Homeless Management Information System (HMIS). Both CES and HMIS are operated by the Orange County Continuum of Care (CoC), with the County Health Care Agency (HCA) as lead agency. The current CES Policy prioritizes referrals from the Service Planning Area region and the host City, then lastly, Countywide.

As these projects may include Project Based Vouchers, the County housing authority will also follow CES policy for referrals. The CES policy is determined by the CoC Board and continues to be modified to reflect systemic priorities.

2) Planning Entitlement Process

The enacting legislation for the Homekey Program states that projects eligible under Homekey are deemed allowed “by right”. Therefore, local zoning and entitlement processes that may typically apply to a motel conversion (a Conditional Use Permit or Zone Change for example) do not apply to Homekey projects under State law (Health and Safety Code Section 50675.1.3 Subdivision i).

Operating details and conditions that would typically be addressed as part of the planning entitlement process could be addressed as part of the Regulatory Agreement for the project, which would be held by the County of Orange and/or City of Costa Mesa.

3) Ground lease, Regulatory Agreement and deed restricted affordability

The property would be acquired by the County of Orange with a ground lease to the developer, a Regulatory Agreement associated with any County funding and 55 Year Affordability deed restriction with the County for Homekey Acquisitions. A Regulatory Agreement would be implemented by the County and would reflect County, City and Operator agreements, detailing the public funding sources and amounts allocated to the project, operating conditions including the target population, affordability requirements, and reporting and auditing requirements. Ultimately, a deed restriction would be placed on the property to enforce the regulatory agreement and affordability covenants.

4) CEQA and NEPA environmental compliance

The California Legislature has granted a CEQA exemption for the Round 2 Homekey program as part of AB 140 (2021), its enacting legislation. The enacting legislation provided the statutory basis by adding section 50675.1.3 to the Health and Safety Code (HSC) and it exempted certain Homekey projects by adding section 50675.1.4 to the HSC, as per Article 1, Section 101 in the State Homekey NOFA.

If federal dollars are used in the project, such as HUD Project Based Housing Choice Vouchers and/or HOME or ARP funds, National Environmental Policy Act (NEPA) compliance will be required. While the NOFA prescribes that NEPA must be submitted with the application to be complete, the State has since determined that not to be feasible and now will allow for NEPA Compliance to be acknowledged and in progress at the time of application.

5) Project Funding and Local Match Funds

Local match is determined from the Appendix A chart in the Homekey NOFA. Enforceable funding commitments are required to ensure the Homekey application is both complete and competitive. Although funding commitment requests are still being negotiated and confirmed, staff anticipates a funding commitment of up to approximately \$2 million for the Motel 6 proposal and approximately \$1.5 million for the Mesa Inn proposal for capital improvements. Both project sponsors are working to finalize their budgets and those figures may be reduced, if the projects are able to confirm funding commitments from other sources in time for the grant proposal/submission. Funding commitment letters are required from the City as part of the Homekey application process and will be pending confirmation of a Homekey award. Staff anticipates utilizing Federal grants and/or funding sources, such as the American Rescue Plan (ARP) allocation, to satisfy the required local match for these projects. As per the ARP Bill, affordable housing development to increase the supply of affordable units is an eligible expense.

The Developers also seek funding commitments from the County of Orange in the way of Project Based Housing Choice Vouchers for Veterans (non-chronic), Mental Health Services Act, Continuum of Care, specifically. There are at least five proposals within the County of Orange and it is anticipated that not all proposals will receive the local match needed by the respective City/County to complete their proposal for submission to the State. The County staff anticipates Board of Supervisors approval of the submission of any Homekey applications and funding commitments in December. Capital match funding contributions from the County are not known at this time.

6) Homekey Expenditure and Occupancy Timeline

Capital funds must be expended within 8 months of award. At minimum, grantees shall complete all construction and/or rehabilitation within 12 months of the date of award. All Projects shall achieve a full occupancy (fully occupied with consideration for an average of 10% vacancy rate at any given time) within 90 days of construction and/or rehabilitation completion. The State will award \$10,000 per Assisted Unit as a conditional bonus amount for Projects meeting the expedited occupancy timeframe, within eight months of the date of award.

Next Steps:

The City will need to respond once the County Board of Supervisors policy decision regarding County match sources is known, which will likely determine feasibility for one or both proposals within the City of Costa Mesa. The City Staff will pursue the direction provided by the City Council regarding the following: 1) location(s) selected, 2) environmental clearance of location(s), 3) Provision of Local Match Letters as enforceable commitments and, 4) compliance with all necessary actions to complete the Homekey Program grant application process.

ALTERNATIVES:

The City Council can provide direction to staff to coordinate with the County on one or more Homekey projects. The Council may also opt not to participate in the Homekey Grant Program.

FISCAL REVIEW:

The City would be obligated to commit "local match funds" to Homekey Projects. Eligible funding sources that can be used for rehabilitation of existing structures to create Permanent Supportive Housing must be committed through an enforceable funding agreement at the time of Homekey application. The City's local match requirement for Motel 6 proposal is estimated at \$2 million and the Mesa Inn proposal is estimated at \$1.5 million for capital improvement activities. Staff anticipates utilizing other eligible funding sources, such as the American Rescue Plan (ARP) allocation to satisfy the required local match for these projects. As per the ARP Bill, affordable housing development to increase the supply of affordable units is an eligible source of expense.

LEGAL REVIEW:

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

CITY COUNCIL GOALS AND PRIORITIES:

- Diversify, stabilize and increase housing to reflect community needs.

CONCLUSION:

Staff is requesting City Council direction regarding several key components in working with the County of Orange in applying for Homekey Program grant funds for the acquisition, rehabilitation and conversion of one or two motels for permanent supportive housing for at risk and homeless populations within the City of Costa Mesa.