



# City of Huntington Beach

**File #:** 21-940

**MEETING DATE:** 12/1/2021

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## REQUEST FOR CITY COUNCIL ACTION

**SUBMITTED TO:** Honorable Mayor and City Council Members

**SUBMITTED BY:** Oliver Chi, City Manager

**PREPARED BY:** Ursula Luna-Reynosa, Director of Community Development

**Subject:**

**Authorization to Collaborate with the County of Orange and American Family Housing to Submit an Application for the Homekey Program Grant Funding Initiative**

**Statement of Issue:**

In September 2021, the State released a Notice of Funding Availability (NOFA) in the amount of \$1.45 billion as part of the "Homekey Program" ("Homekey") to sustain and rapidly expand the inventory of housing for people experiencing homelessness or at-risk of homelessness through the development of housing opportunities, including, but not limited to, the conversion of motels/hotels into permanent supportive housing or interim housing.

Given the Homekey program parameters, coupled with the need for permanent supportive housing (PSH) in the City, a motel location was identified as a possible acquisition target, at 17251 Beach Boulevard (the "Project"). In order to complete the application process, the City has been in discussions with the County and American Family Housing about applying for Homekey funds to acquire and convert the Project. As part of that process, the City has identified \$4.21 million in restricted local housing related funds that are available to contribute as matching funds to aid in this effort.

If approved by the City Council to proceed with the Homekey application effort, American Family Housing in partnership with National Community Renaissance ("National Core") (collectively, the "Developer") will be a co-applicant with the County of Orange (the "County") on the Homekey application. The State has indicated that requests for funding will be evaluated on a first come, first served basis. Funding commitments are required to ensure the Homekey application is complete and competitive, and therefore, the City Council is requested to adopt a resolution that authorizes the City Manager, or designee, to execute a local match funding commitment letter in the amount of \$4.21 million.

**Financial Impact:**

The \$4.21 million for the Project is proposed to be funded from the Low and Moderate Income Housing Asset Fund (LMIHAF) in the amount of \$2.40 million, and from the HOME Partnerships

Investment-American Rescue Plan Act (HOME-ARP) in the amount of \$1.81 million. The \$2.40 million of LMIHAF may go toward acquisition, and rehabilitation to convert the motel units into housing and the \$1.81 million will go toward operating expenses. These funding sources are restricted and can only be used to address housing and homelessness / at-risk of homelessness activities, respectively.

Should the Homekey funding be successfully secured for the Project, staff will return to the City Council with an operating contract for the \$1.81 million and an acquisition/ rehabilitation loan agreement for the \$2.40 million with the developer. The City will then need to adopt an Allocation Plan consistent with HUD guidelines allocating the \$1.81 million for the Project prior to executing an operating contract.

**Recommended Action:**

- A) Direct staff to collaborate with the County of Orange and Developer to submit an application for the Homekey Program grant funding for the acquisition, rehabilitation and conversion of the motel located at 17251 Beach Boulevard; and
- B) Find the Homekey Project 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
- C) Adopt Resolution No. 2021-74 (Attachment 1) which provides a funding commitment of up to \$4.21 million as local contribution toward a Homekey project upon award of State Homekey Program grant and authorizes the City Manager, or designee, to take any and all actions necessary to secure Homekey Program grant funds, including but not limited to executing a local match funding commitment letter.

**Alternative Action(s):**

Do not approve the recommended action.

**Analysis:**

*Background/Discussion*

On September 9, 2021, the State's Housing and Community Development Department (HCD) issued a NOFA for Homekey in the amount of \$1.45 billion to sustain and rapidly expand the inventory of housing for people experiencing homelessness or at-risk of homelessness and who are, thereby, inherently impacted by or at increased risk for medical diseases or conditions due to the COVID-19 pandemic or other communicable diseases. The purpose of Homekey is to provide an opportunity for state, regional, and local public entities to develop a broad range of housing types, including but not limited to hotels, motels, hostels, single-family homes and multifamily apartments, adult residential facilities, and manufactured housing, and to convert commercial properties and other existing buildings to permanent supportive housing or interim housing. Homekey funds will be available to eligible applicants on a continuous, first come, first served, over-the-counter basis.

City staff explored Homekey opportunities in the City and identified a potential motel conversion property consisting of the Quality Inn and Suites (66 rooms) located at 17251 Beach Boulevard. The Developer has the property under contract for purchase and will serve as the co-applicant with the County to cause the conversion of the motel rooms into supportive housing units and will serve as the property management firm. The County, pending appropriate approvals, will contribute \$4.92 million of funds toward the operations during years one through four. The City's \$1.81 million of HOME-ARP funds will cover year five of operations. And as previously mentioned, \$2.40 million of LMIHAF may go toward acquisition, rehabilitation and motel conversion. An award of \$15.66 million is being solicited from HCD via the Homekey program.

### *Proposed Project Rehabilitation*

The existing structure is a three story, sixty-six unit, open-air hotel, with open corridors and units that open onto the parking lot. The building is a mixture of 47 studio, 18 one-bedroom and 1 two-bedroom units. Each unit receives an abundance of natural light. Overall, the existing hotel has been well maintained. The proposed Project involves the light rehabilitation of the existing hotel to provide 64 units of interim/transitional supportive housing until such time that Project Based Vouchers (PBV) can be obtained for a conversion to Permanent Supportive Housing (PSH), which is estimated at 3 to 5 years. The unit mix includes 31 homeless, 31 chronically homeless and two units for an on-site manager and maintenance technician. Based on a preliminary physical needs assessment, approximately \$500,000 in repairs and upgrades are needed. Other improvements to the property include the addition of kitchenettes in the rooms, reworking of the common areas to add office space and other amenities, and the addition of landscaping on portions of the parking lot. The developer's preliminary scope of work includes the following:

#### Site Work

Add security fencing at the front of site, restripe parking lot, upgrade / repair exterior lighting and add security cameras.

#### Building Exterior

Repair walkways, roof and remove existing building signage.

#### Management / Service Office and Community Center

Combine two units to create a community center for the tenants. Replace the fire alarm control panel and add audio/communications to 2 percent of the units. Buildout the management and service staff offices.

#### Building Interior

Pest control and asbestos abatement as necessary. Add kitchenettes in all units. On an as needed basis, repair drywall, paint, replace flooring, replace ac units, replace interior lighting,

and replace unit-plumbing fixtures.

Make code corrections in ADA units that includes, counter adjustment, bathroom reconfigurations, cabinetry replacement, change door hardware and replace flooring.

Currently, AFH is providing services for up to five years in two motels in the City of Stanton operating under the Homekey program. This is a bridge housing program to support participants in securing permanent housing and ending the cycle of homelessness. The Stanton program consists of a multi-disciplinary treatment team of clinicians and case managers who provide supportive services and linkages to PSH for fifty-eight (58) clients at Tahiti Motel and seventy (70) clients at the Stanton Inn & Suites.

### *Key Components of the Homekey Program*

#### 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 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 it is envisioned that the Project will convert to Permanent Supportive Housing (PSH) once and if Project Based Vouchers become available, 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.

#### 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 acquisition/ rehabilitation loan agreement between the City and Developer for the \$2.40 million.

#### Ground lease, Regulatory Agreement and deed restricted affordability

The property would be acquired and encumbered by the County with a memorandum of lease/55-year ground lease to the Developer to enforce the use, operation, occupancy and affordability requirements under the Homekey Program.

### *Proposed Project Financing*

The proposed Project costs for acquisition, rehabilitation, and operations are estimated at \$24.78 million, of which, \$16.27 million will consist of acquisition and rehabilitation with the balance of \$8.51 million consisting of operating costs for five years. The Homekey application to be submitted to HCD will include a funding ask of approximately \$15.66 million (\$13.87 million for acquisition/rehabilitation, \$1.79 million for operating costs).

The County has confirmed that Project Based Vouchers are not currently available for the Project. Therefore, in addition to the \$1.79 million in proposed State Homekey funds and the City's \$1.81 million of HOME-ARP funds for operating costs, the remaining \$4.92 million is being solicited from the Orange County Healthcare Agency's Office of Care Coordination (the "County CoC") for five years of operating funds, a prerequisite of the Homekey application. As previously stated, if Project Based Vouchers become available in the future, the Project will convert to Permanent Supportive Housing prior to Year 5.

The City has available unencumbered funds in LMIHAF of \$2.67 million and \$2.20 million in HOME-ARP funding for addressing housing and homelessness-related activities. Both fund balances are sufficient to cover the respective \$2.4 million of LMIHAF and \$1.81 million of HOME-ARP funds. Further, \$900,000 will be reimbursed into the LMIHAF when the TCAC financing for the Jamboree Senior Housing project closes in January as the City's Acquisition Loan is being repaid.

Staff is recommending the City contribution for the proposed Project would be \$4.21 million consisting of \$2.40 million match for acquisition/rehabilitation, and approximately \$1.81 million for year five operating expenses. Staff is also recommending that the proposed funding for the Project be conditionally approved upon completion of the following: 1) successful acquisition of the site by the Developer or County; 2) receipt of sufficient County operating funding (or another non-City funding source) to cover operating costs for years one through four in the amount of \$4.92 million; and 3) Homekey award as calculated and approved from HCD.

If one or more of the conditions outlined above are not met, then the proposed City Project funding, consisting of LMIHAF and HOME-ARP funds, will remain in their respective City fund accounts for use on other future eligible activities and the proposed Project will not move forward.

### *Anticipated Timeline*

The Project timeline is estimated as follows:

Submittal of NOFA Homekey application	By December 31, 2021
Construction start date	June 1, 2022
Construction completion date	March 1, 2023
Estimated occupancy date	June 1, 2023

### **Environmental Status:**

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. The State has allowed for NEPA Compliance to be acknowledged and in progress at the time of application and completed by disbursement.

**Strategic Plan Goal:**

Homelessness Response

**Attachment(s):**

1. Resolution 2021-74