



City of Huntington Beach

File #: 22-268

MEETING DATE: 5/17/2022

REQUEST FOR CITY COUNCIL / HOUSING AUTHORITY ACTION

SUBMITTED TO: Honorable Mayor and City Council Members / Chair and Board Members

SUBMITTED BY: Sean Joyce, Interim City Manager / Executive Director

VIA: Ursula Luna-Reynosa, Director of Community Development

PREPARED BY: Charles G. Kovac, Housing Manager

Subject:

Approve and authorize execution of an Affordable Housing Loan Agreement between the Housing Authority, American Family Housing, and National Core for the Homekey HB Oasis Project located at 17251 Beach Boulevard and authorize the City Manager to enter into a future funding agreement between the City and the County of Orange for homelessness prevention supportive services; adopt City Council Resolution No. 2022-20 and Housing Authority Resolution No. 07

Statement of Issue:

On December 1, 2021, the City Council directed staff to collaborate with American Family Housing and National Community Renaissance ("National Core") (collectively, the "Developer") and the County of Orange (the "County") to submit an application to the California Department of Housing and Community Development (HCD) for grant funds under the Homekey program ("Homekey"). The Council further adopted Resolution No. 2021-74 (Attachment 1) committing up to \$4.21 million in restricted local housing funds as the City's financial contribution required to ensure the Homekey application was complete and competitive.

The proposed Homekey project is for the acquisition of the Quality Inn and Suites at 17251 Beach Boulevard ("Project"), an interim conversion of this property to transitional housing for individuals and families experiencing homelessness, and then conversion to permanent supportive housing in three to five years. The City's funding commitment was comprised of \$2.4 million from the Low and Moderate Income Housing Asset Fund (LMIHAF), which would go toward rehabilitation costs and \$1.81 million from HOME Investment Partnerships - American Rescue Plan Act (HOME-ARP) program funds, which would go toward homelessness prevention supportive services.

On December 28, 2021, the Developer and the County submitted a Homekey application to HCD, and on February 16, 2022, the Project was awarded \$17 million in Homekey funds. All of the City's remaining funding conditions outlined in Resolution No. 2021-74 have been met by the Developer and the County. Affordable Housing Loan Agreement ("Agreement") between the Housing Authority

and the Developer has been prepared by the City Attorney and is recommended for approval by the Council.

The Homekey program requires a funding commitment for a minimum of five years of homelessness prevention supportive services while the Project operates as transitional housing, and the County has agreed to pay for the first four years of these services. The balance of the City's funding commitment of \$1.81 million of HOME-ARP funds will cover supportive service costs in year five if the Project has not already converted to permanent supportive housing. Staff is recommending that the City Manager be authorized to enter into a future grant agreement with the County, as approved by the City Attorney, for year five supportive services costs if and when these funds are necessary. If the Project converts to permanent supportive housing before year five, and these HOME-ARP funds are ultimately not necessary for this Project, staff will return to City Council for direction to reallocate these funds to other eligible activities.

Financial Impact:

Pursuant to Resolution No. 2021-74, the City has committed \$4.21 million in restricted local housing funds to the Project. This amount is comprised of LMIHAF in the amount of \$2.40 million and \$1.81 million from HOME-ARP. The \$2.40 million of LMIHAF will go towards rehabilitation costs to convert the motel units into housing, and the \$1.81 million will go toward the fifth year supportive services costs. These funding sources are restricted and can only be used to address affordable housing and homelessness/at-risk of homelessness activities, respectively.

Recommended Action:

A) Find the Homekey Project exempt from CEQA pursuant to Public Resources Code Section 21080.50 and Health and Safety Code Sections 50675.1.3 and Section 50675.1.4, and direct staff to file a Notice of Exemption; and,

B) Adopt City Council Resolution No. 2022-20 (Attachment 2), "A Resolution of the City Council of the City of Huntington Beach Approving Actions related to the Use of \$4.21 Million in Low and Moderate Income Housing Asset and HOME-ARP Funding for the Homekey Motel Conversion Project located at 17251 Beach Boulevard; Finding the Homekey Project Exempt from California Environmental Quality Act Finding per Section 21080.50 and directing Staff to File a Notice of Exemption; and Authorize the City Manager to Negotiate, Execute and Implement a Future Funding Agreement as necessary related to the \$1.81 Million in HOME-ARP Funds"; and,

C) Adopt Authority Resolution No. 7 (Attachment 4), "A Resolution of the Huntington Beach Housing Authority Approving an Affordable Housing Agreement with American Family Housing and National Community Renaissance of California for \$2.4 Million in Low and Moderate Income Housing Asset Funds for the Homekey Motel Conversion Project located at 17251 Beach Boulevard and Authorize the Executive Director to take Necessary Actions to Execute and Implement the Agreement"; and,

D) Appropriate \$2.4 million in the Low and Moderate Income Housing Fund (Fund 352) for the

Homekey Conversion Project and appropriate \$1.81 million in HOME ARP Funds to go toward the fifth year supportive services costs as needed.

Alternative Action(s):

Do not approve the recommended action.

Analysis:

Background/Discussion

On September 9, 2021, HCD issued a Notice of Funding Availability for the Homekey program 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 were made available on a competitive, first-come first-served basis.

Homekey is the successor program to Project Roomkey, which provided funding to lease motels as the State's initial response to protect individuals experiencing homelessness during the onset of the COVID-19 pandemic. Homekey was created to replace Project Roomkey by providing funding through competitive grants to purchase motels for conversion to interim or permanent, long-term housing to serve the homeless.

Staff explored Homekey opportunities in the City and identified the Quality Inn and Suites (66 rooms) located at 17251 Beach Boulevard as a potential project due to its proximity to the Navigation Center, room sizes, quality of maintenance, and price. Simultaneously, the Developer identified this site and approached staff about this potential Homekey opportunity. The Developer also approached the County as a potential partner. After receiving support from the City with a \$4.21 million funding commitment and support from the County with a \$4.92 million funding commitment, the Project was awarded \$17 million in Homekey funds from HCD. The Developer has the property under contract for purchase and will close escrow upon satisfaction of all HCD Homekey contract conditions, which include a signed copy of the City's \$2.4 million rehabilitation loan agreement recommended for approval herein.

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. 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 the Project is converted to permanent supportive housing, which is estimated to be in

three to five years. The unit mix includes 31 homeless, 31 chronically homeless and 2 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 proposed Project costs for acquisition, rehabilitation, and operations are estimated at \$25.58 million, of which, \$16.43 million will consist of acquisition and rehabilitation with the balance of \$9.15 million consisting of supportive services costs for five years.

LMIHAF Loan Agreement

On December 1, 2021, the City Council allocated \$2.4 million in LMIHAF funds to the Project to assist with rehabilitation costs. The City currently has an available unencumbered LMIHAF fund balance of \$3.3 million for affordable housing projects. Therefore the LMIHAF fund balance is sufficient to cover the respective \$2.4 million for this Project.

In 2011, the City established the Housing Authority ("Authority") to administer affordable housing assets from the former Redevelopment Agency, including affordable housing loan agreements. Because LMIHAF funds are former Redevelopment Agency housing funds, the Affordable Housing Loan Agreement ("Agreement") for this Project has been prepared by and between the Authority and the Developer.

The proposed term of the Authority's loan is 55 years with simple interest at three (3) percent. The Developer will repay the loan proportionately with the County funding with full repayment by the 55-year maturity date. Payments will be made to the Authority annually, from the Project's residual receipts (annual revenue remaining after operating expenses). The affordability covenants per the Agreement will be in place for a minimum period of 55 years from the conversion date to permanent supportive housing. In addition, because City staff will be monitoring the Project annually for compliance with affordability requirements and other terms of the Agreement, the Developer has agreed to pay an annual monitoring fee of \$1,600 (\$25 per unit), increasing at three percent per year, to defray a portion of the City's cost associated with this monitoring.

Attachment 3 includes the proposed Agreement and Attachment 4 includes the Authority resolution approving the Agreement.

HOME-ARP Grant Agreement

On March 11, 2021, President Biden signed the American Rescue Plan Act 2021 into law, which provided over \$1.9 trillion dollars in relief to address the continued impact of the COVID-19 pandemic on the economy, public health, state and local governments, individuals, and businesses. Congress appropriated \$5 billion dollars of these funds to be administered through the HOME-ARP program. The U.S. Department of Housing and Urban Development (HUD) allocated \$2,240,675 of these funds to the City. On April 19, 2022 the Council adopted Resolution No. 2022-17 directing \$1.81 million of these HOME-ARP funds to the Project.

If the Project converts to permanent supportive housing prior to year five, then this funding will not be needed and can be redirected to other HOME-ARP eligible activities. For this reason, staff is recommending that the City Council authorize the City Manager to enter into a future HOME-ARP grant agreement with the County, if necessary and as approved by the City Attorney, for the supportive services component of the Project. If necessary, this grant agreement would be between the City and the County because HOME-ARP are City funds as compared to LMIHAF funds which are former Redevelopment Agency funds.

Attachment 2 includes a resolution that delegates authority to the City Manager to enter into this future grant agreement.

Environmental Status:

The Project is exempt from CEQA pursuant to Public Resources Code Section 21080.50, because the Project is an interim motel/housing project as defined in Section 21080.50 to provide transitional housing.

Since federal dollars are being used in the project, such as HOME-ARP funds, National Environmental Policy Act (NEPA) compliance will be required prior to expenditure of funds. The City is in the process of completing all NEPA compliance related to the HOME-ARP funds for the Project.

Strategic Plan Goal:

Homelessness Response

Attachment(s):

1. City Council Resolution No. 2021-74 adopted on December 1, 2021
2. City Council Resolution No. 2022-20, "A Resolution of the City Council of the City of Huntington Beach Approving Actions related to the Use of \$4.21 Million in Low and Moderate Income Housing Asset and HOME-ARP Funding for the Homekey Motel Conversion Project located at 17251 Beach Boulevard; Finding the Homekey Project Exempt from California Environmental Quality Act Finding per Section 21080.50 and directing Staff to File a Notice of Exemption; and Authorize the City Manager to Negotiate, Execute and Implement a Future Funding Agreement as necessary related to the \$1.81 Million in HOME-ARP Funds."
3. Affordable Housing Agreement by and between the Huntington Beach Housing Authority and American Family Housing and National Community Renaissance of California
4. Housing Authority Resolution No. 7, "A Resolution of the Huntington Beach Housing Authority Approving an Affordable Housing Agreement with American Family Housing and National Community Renaissance of California for \$2.4 Million in Low and Moderate Income Housing Asset Funds for the Homekey Motel Conversion Project located at 17251 Beach Boulevard and Authorize the Executive Director to take Necessary Actions to Execute and Implement Said Agreement."