



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: NOVEMBER 12, 2024

DEPARTMENT: COMMUNITY DEVELOPMENT

FROM: LISA BRINTON, DIRECTOR

THROUGH: VINCENT MONTGOMERY, PLANNING MANAGER

BY: LUIS OCHOA, SR. COMMUNITY DEVELOPMENT ANALYST
MONICA FLORES-PONCE, COMMUNITY DEVELOPMENT ANALYST

TITLE: AUTHORIZATION TO ENTER INTO A FUNDING AGREEMENT WITH THE HOUSING AUTHORITY OF THE COUNTY OF MONTEREY TO SUPPORT THE ACQUISITION OF 1030 FAIRVIEW AVENUE

RECOMMENDED MOTION:

A motion to approve a Resolution authorizing:

1. the City Manager, or designee, to negotiate and execute all applicable forms, conditional commitment letters, agreements, grant-related documents, and subsequent amendments to transfer an amount not to exceed \$2,500,000 to the Housing Authority of the County of Monterey (“HACM”), matched by the County of Monterey, to support the acquisition of the Salinas Inn located at 1030 Fairview Avenue, Salinas, California 93905 (Property), for permanent supportive housing; and
2. the re-allocation of up to \$1,330,263 of year two Permanent Local Housing Allocation (PLHA) funds for Property acquisition; and
3. the re-allocation of up to \$1,169,737 in Prohousing Incentive Program (PIP) funds for Property acquisition.

EXECUTIVE SUMMARY:

This request seeks City Council authorization for a one-time contribution of up to \$2.5 million to the Housing Authority of the County of Monterey (HACM) to support the acquisition of 1030 Fairview Avenue (Property). The County of Monterey Behavioral Health Department is also seeking Board of Supervisors approval to match this contribution on November 12, 2024. The Property, formerly known as the Salinas Inn, is one of three Homekey sites in the City and is strategically important for expanding permanent supportive housing in Monterey County. The facility includes 44 studio units and a 1-bedroom manager’s unit that have been renovated. The proposed acquisition will help retain the Property as permanent supportive housing for residents experiencing chronic homelessness with mental illness and/or other health conditions.

The City's identified funding sources are up to \$1,330,263 of PLHA funds and up to \$1,169,737 of PIP funds. The PLHA year two award expenditure deadline is April 31, 2025, and the PIP expenditure deadline is June 30, 2025. By committing both PLHA and PIP funds to the acquisition of the Property, the City will ensure compliance with both grant expenditure deadlines. This will require reallocating PLHA and PIP funds from other projects. Projects that are defunded will be made whole from other available City grant sources for multifamily affordable housing production.

BACKGROUND:

The City, Shangri-La Industries LLC (Shangri-La), and Step Up on Second Street, Inc. (Step Up) entered Memoranda of Understanding (MOUs) for property management and case management of the Sanborn Inn and Salinas Inn Homekey projects. The City allocated year two PLHA funds to the Sanborn Inn (\$1,014,000) and the Salinas Inn (\$220,000) Homekey Projects for the provision of services to the residents of the future permanent supportive housing projects. However, the City never formalized Funding Agreements with Shangri-La and Step Up. In 2023, Shangri-La defaulted on both Homekey projects, leading to their foreclosure. Both properties were sold to new owners. The new owner of the Salinas Inn has expressed interest in selling the Property. The City of Salinas and the County are interested in financially supporting HACM to purchase and operate the Property to preserve it as a permanent supportive housing project. Both agencies are proposing a one-time contribution of up to \$2.5 million dollars each to support Property acquisition. The Housing Authority is in the process of having the Property appraised and is exploring other one-time funding contributions to support the acquisition of the Property in partnership with the City and County.

Reallocation of Year Two PLHA Funds

The City intends to allocate up to \$1,330,263 of PLHA funds from year two under Activity 6 for the acquisition of the Property. PLHA Activity 6 funds were intended for the operational costs to run the Sanborn Inn and Salinas Inn Homekey projects. In September 2024, City staff consulted with the state Housing and Community Development Department (HCD) and confirmed that under Activity 6, the funding can be redirected towards the acquisition of a permanent supportive housing project for unsheltered individuals without having to go through a budget amendment. Table 1 below shows the intended reallocation of PLHA funds.

Table 1

		Current PLHA Allocation	Proposed PLHA Allocation
Activity Description	Program	2020 (2 nd Year)	2020 (2 nd Year)
Activity #6 Homeless Services Assistance	180 S. Sanborn Rd.	\$1,014,000	\$0
	1030 Fairview Ave.	\$220,000	+/- \$1,330,263
	Unencumbered	\$96,263	\$0
Total		\$1,330,263	\$1,330,263

Reallocation of Prohousing Incentive Program Funds

On May 9, 2023, the City received a conditional award letter from HCD in the amount of \$1,650,000 for the PIP Program and the Standard Agreement was executed on January 26, 2024.

Before executing the Standard Agreement, on December 11, 2023, the City had already executed a Conditional Funding Reservation Letter to Envision Housing LLC for \$500,000 in PIP funds towards the predevelopment costs of the 100% affordable housing project at 467/479 E. Market Street. This project has been unable to secure additional funding sources, and the City is proposing to unreserve the \$500,000 to allocate these funds towards the acquisition of the Property. Additionally, under the PIP Program, the City had allocated \$500,000 towards the creation of a First Time Homebuyer Program. The PIP budget also had \$169,737 in unencumbered funds. The City intends to reallocate both amounts to the acquisition of the Property. This will bring the City's total PIP allocation up to \$1,169,737. Table 2 below shows the intended reallocation of PIP funds.

Table 2

Activity Description	Current PIP Allocation		Proposed PIP Allocation	
	Amount	Project	Amount	Project
Administration	\$82,500	Administration	\$82,500	Administration
Multifamily Affordable Housing	\$500,000	467/479 E. Market St.	+/- \$1,169,737	1030 Fairview Ave.
	\$567,000	Unencumbered	\$397,763	Unencumbered
Homeownership Opportunities	\$500,000	Unencumbered	\$0	No Funds Available
Total	\$1,650,000		\$1,650,000	

With the reallocation of PIP and PLHA funds, the City may allocate up to \$2,500,000 to HACM to support the acquisition of the Property. The PLHA year two award expenditure deadline is April 31, 2025, and the PIP expenditure deadline is June 30, 2025. By committing both PLHA and PIP funds to the acquisition of the Property, the City will ensure compliance with both grant expenditure deadlines.

To ensure the successful completion of the 467/479 E. Market Street and the Sanborn Inn projects and the establishment of a First Time Homebuyer program, the City will identify and make them whole though other available City grant resources.

CEQA CONSIDERATION:

Not a project. The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378). In addition, CEQA Guidelines Section 15061 includes the general rule that CEQA applies only to activities which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Because the proposed action and this matter have no potential to cause any effect on the environment, or because it falls within a category of activities excluded as projects pursuant to CEQA Guidelines section 15378, this matter is not a project. Because the matter does not cause a direct or foreseeable indirect physical change on or in the environment, this matter is not a project. Any subsequent discretionary projects resulting from this action will be assessed for CEQA applicability.

CALIFORNIA GOVERNMENT CODE §84308 APPLIES:

No.

STRATEGIC PLAN INITIATIVE:

The allocation of year two PLHA and PIP funds to HACM for the acquisition the Salinas Inn, a permanent supportive housing project, supports the City of Salinas 2022-2025 Strategic Plan Goals and Strategies of Housing/Affordable Housing through the preservation of needed permanent supportive housing units in Salinas. Acquisition funding support reflects the City's commitment to fostering affordable and permanent supportive housing projects.

DEPARTMENTAL COORDINATION:

This agenda item is administered by the CDD's Housing and Community Development Division in consultation with the Office of the City Attorney and the Finance Department. City staff also collaborated with HCD and HACM on this agenda item.

FISCAL AND SUSTAINABILITY IMPACT:

There will be no impact on the General Fund. The allocated funds for this potential property acquisition are from existing State grant funds.

Fund	Appropriation	Appropriation Name	Total Appropriation	Amount for recommendation	FY 24-25 Operating Budget Page	Last Budget Action (Date, Resolution)
2951	30.3240-69.1351	Financial Assistance - Multi Family Housing	\$3,127,818	\$1,330,263	N/A	10/18/2022, 22497
2958	30.3240-69.1351	Financial Assistance - Multi Family Housing	\$1,567,500	\$1,169,737	N/A	03/07/2023, 22605

ATTACHMENTS:

Resolution
Location Map
Salinas Inn Photos