



**CITY OF SALINAS
COUNCIL STAFF REPORT**

DATE: NOVEMBER 16, 2021

DEPARTMENT: COMMUNITY DEVELOPMENT DEPARTMENT

FROM: MEGAN HUNTER, DIRECTOR

BY: ROD POWELL, PLANNING MANAGER

TITLE: AUTHORIZATION TO SUBMIT JOINT APPLICATIONS TO THE CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD) FOR HOMEKEY PROGRAM ROUND 2 FOR CONVERSION OF TWO MOTELS TO PERMANENT SUPPORTIVE HOUSING

RECOMMENDED MOTION:

A motion to approve:

- 1) a Resolution authorizing the submittal of joint applications to the California Department of Housing and Community Development (“HCD”) for Homekey Round 2 for the conversion of two motels to permanent supportive housing including the following actions:
 - a) authorizing the City Manager or designee to finalize a Memorandum of Understanding with Shangri-La and Step Up to acquire the Salinas Inn and Sanborn Inn for conversion to interim housing in the first year and permanent supportive housing thereafter to be executed by the Mayor; and
 - b) approving an exemption from City development impact fees in the amount not to exceed \$600,000 for these projects; and
 - c) approving a local match contribution of up to \$4.5 million including HOME-ARP, City Homeless ARPA (Salinas Motel Program), and Permanent Local Housing Allocation (PLHA) funds; and
- 2) Two (2) HCD Resolutions authorizing two (2) Joint Applications to and Participation in the Homekey Program for the conversion of the Sanborn Inn to permanent supportive housing in the amount not to exceed \$22.2 million and for the conversion of the Salinas Inn to permanent supportive housing in the amount not to exceed \$16.6 million.

RECOMMENDATION:

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EXECUTIVE SUMMARY:

On August 13, 2020, the City submitted a Homekey Program application to purchase and convert the Good Nite Inn at 545 Work Street into interim housing during the first year and permanent supportive housing thereafter for people experiencing chronic homelessness. The City partnered with Shangri-La Industries, LLC (Shangri-La) and Step Up on Second, Inc. (Step Up) to convert the property to permanent supportive housing for those hardest to house and most in need of wrap around services. The City received a Homekey grant of approximately \$9.2 million for the project. Acquisition was completed in December 2020 and 50% of the rooms are currently occupied while the development team works to complete the conversion to permanent housing. The Salinas Homekey Project has been widely recognized as a significant step forward in providing much needed affordable housing opportunities in the city as well as a model Public-Private Partnership development.

On September 9, 2021, the HCD announced the availability of approximately \$1.45 billion of Homekey Program Round 2 grant funding to build upon the success of both Project Roomkey and the first round of Homekey. This significant investment seeks to continue a statewide effort to rapidly expand affordable housing options for persons experiencing homelessness or at risk of homelessness, and who are impacted by or at increased risk for medical diseases or conditions due to the COVID-19 pandemic. Through the submission of Homekey Program Round 2 applications, the City will access available acquisition and operational funding (estimated at \$19.5 million) for the rapid development of two additional hotel conversion projects that will create 103 units of permanent supportive housing. This opportunity represents the most expedient and cost-effective

way to increase the City's stock of affordable housing specifically for people experiencing chronic homelessness.

BACKGROUND:

On August 4, 2020, the City Council authorized the submittal of an application to HCD for the Homekey Program. The City and its development and operational partners, Shangri-La and Step Up, submitted the application to HCD on August 13, 2020. The City identified Step Up and Shangri-La as developer partners in the application. This developer team has extensive experience in converting motels/hotels into permanent supportive housing and partially financed the project to reduce the overall grant request for acquisition. On September 17, 2020 the City was notified by HCD that funds had been reserved for the Salinas Homekey Project pending successful completion of the required due diligence items. On October 13, 2020 the Salinas City Council approved purchase and partnership agreements for the Salinas Homekey Project with Step Up and Shangri-La and approved a co-application resolution for HCD. Currently, 50% of the Good Nite Inn is occupied.

HCD released a Homekey Program Round 2 NOFA on September 9, 2021 for \$1.45 billion and the City seeks to apply for funding as soon as possible due to the first come, first served nature of the funding. The City has identified its existing, experienced Homekey partners, Shangri-La and Step Up, as its application partners for this Homekey Program Round 2 applications. Shangri-La will once again provide property acquisition and renovation on the project and Step Up will provide property management and onsite services. Both partners have extensive track records in the development and operation of affordable housing and Homekey projects throughout the state.

DISCUSSION:

The City's Homekey Program Round 2 applications would seek to acquire two properties, the Salinas Inn and Sanborn Inn, located at 1030 Fairview Ave and 180 S. Sanborn Rd, respectively, to provide 103 new affordable housing units for chronically homeless and homeless youth (ages 18-24). Both properties are currently operating as motels and are well-equipped to immediately provide homeless and chronically homeless individuals earning less than 30% of the Area Median Income with interim housing. Each property will also have a unit dedicated to on-site property managers. A staged approach to the rehabilitation and occupancy of the two properties will allow for the complete renovation of the Salinas Inn site to occur while the larger Sanborn Inn serves as an immediate interim housing opportunity. The projects will leverage funding from the City of Salinas ARPA/PRK Motel Program approved by Council on October 26, 2021.

At the time of a formal opening of interim housing, the project will offer the residents an opportunity to remain in the housing as it progresses to the permanent supportive model. Upon completion of its renovation, the Salinas Inn would open for permanent supportive housing placements with priority placement for those in interim housing at that Sanborn Inn site. Renovation work would then commence on the Sanborn Inn. It is estimated that both properties would be operating and fully occupied under a permanent supportive housing model within 18 months of acquisition. Future residents will be referred to the project by local service providers that are part of the Coalition for Homeless Services Providers ("Coalition") and referral agencies

with access to Monterey County Housing Authority set aside vouchers, allowing these individuals to keep those services and support networks as they transition into the housing.

The City and its partners are prepared and well positioned to move quickly upon an award of Homekey funds. Shangri-La has established Letters of Intent with the current owners of each property and Step Up's current local model, service partnerships and procured site vendors will serve as a foundation for operations for the new Homekey sites. As with the Good Nite Inn Homekey project, Shangri-La is responsible for completing required due diligence including an Appraisal, Property Needs Assessment, and Phase 1 Environmental Report. Shangri-La has also initiated title report work. The City will facilitate the consideration and resolution of any necessary land-use or zoning changes to include outreach to adjacent property owners to provide notification about the proposal and to incorporate features to minimize impacts.

The project's initial interim housing will operate under a proven Project Roomkey model and will also benefit from wraparound services provided by California State University Monterey Bay's Community Health Engagement team and housing navigation services provided by the Central Coast Center for Independent Living. The City will use \$1 million of the Homeless ARPA funding for the Motel Program to quickly occupy the 59 rooms at the Sanborn Inn. This amount is the equivalent of leasing a comparable motel. This funding will offset the local match that would otherwise be required and leverage Homekey funds.

The City and Step Up have coordinated with the Coalition of Homeless Services Providers to formalize the selection process of Homekey residents. The City anticipates that at least 68 households will either have a homeless set aside voucher or emergency housing vouchers (EHV). The Continuum of Care through the Housing Authority of the County of Monterey (HACM) received an allocation of 269 EHV's. Unfortunately, as of the development of this report only one EHV has been granted. Service providers are reporting that landlords are not interested in accepting the EHV. Luckily, the developer of this project is willing to accept the EHV's to reduce the needed rental subsidy. Because this housing can come on line so quickly, it is likely that a large number of EHV's will be available. For longer-term subsidies, it is anticipated that the developer will apply for Project Based Vouchers.

Due to the time sensitive nature of the HCD Homekey Round 2 rolling application process, efficient, timely application submission is encouraged. The HCD has established a four-month priority application period from the release date of the Homekey application through January 31, 2022 and will award a 'bonus' to applications submitted in this timeframe. Additional set-aside funding is available for projects, such as this project, that serve homeless youth. Also, HCD has divided the state into eight regions with a reserved funding allocation that are largely aligned with the various Councils of Government. There has been strong interest for this limited funding from the City's Central Coast Region, comprised of local jurisdictions located within Monterey, Santa Cruz, San Benito, San Luis Obispo and Santa Barbara counties. Therefore, there is an increased likelihood of funding the sooner the City applies. HCD anticipates providing award announcements to applicants within 45 days of submission with the issuance of Standard Agreements to follow shortly after.

Estimated Project Timeline

- November 16, 2021 – Council Authorization to submit Joint Homekey Round 2 Application
- November 18, 2021 – Submit Homekey Round 2 Application to HCD
- December 31, 2021 – Anticipated HCD award notification
- January 15-30, 2022 – Estimated start of interim housing at Sanborn Inn site
- August 15, 2022 – Completion of motel conversion at Salinas Inn to Permanent Supportive Housing and move in of residents
- May 15, 2023 - Completion of motel conversion at Sanborn Inn to Permanent Supportive Housing and move in of residents

The anticipated total amount requested in the Homekey Round 2 Applications to HCD for these projects is approximately \$19.5 million including \$15 million for acquisition and \$4.5 million for operating subsidy. However, HCD recommends that jurisdictions request double the anticipated grant award resulting in a total request of \$38.8 million for both projects. In this case, the attached HCD Resolutions include respective total amounts not to exceed \$22.2 million and \$16.6 million for each site. It should be noted that the entire pool of funding for the Central Coast is approximately \$43 million.

CEQA CONSIDERATION:

The City of Salinas has determined that the proposed action is exempt from CEQA. Pursuant to AB 140, the following CEQA statutory exemption has been added to Health and Safety Code section 50675.1.4: (a) Notwithstanding any other law, the California Environmental Quality Act (Division 13 (commencing with section 21000) of the Public Resources Code) shall not apply to any project, including a phased project, funded pursuant to section 50675.1.3 if all of the following requirements, if applicable, are satisfied: (1) No units were acquired by eminent domain. (2) The units will be in decent, safe, and sanitary condition at the time of their occupancy. (3) The project proponent shall require all contractors and subcontractors performing work on the project to pay prevailing wages for any proposed rehabilitation, construction, or major alterations in accordance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the Labor Code. (4) The project proponent obtains an enforceable commitment that all contractors and subcontractors performing work on the project will use a skilled and trained workforce for any proposed rehabilitation, construction, or major alterations in accordance with Chapter 2.9 (commencing with Section 2600) of Part 1 of Division 2 of the Public Contract Code. (5) The project proponent submits to the lead agency a letter of support from a county, city, or other local public entity for any proposed rehabilitation, construction, or major alteration work. (6) Any acquisition is paid for, in whole or part, with public funds. (7) The project provides housing units for individuals and families who are experiencing homelessness or who are at risk of homelessness. (8) Long-term covenants and restrictions require the units to be restricted to persons experiencing homelessness or who are at risk of homelessness, which may include lower income and very low-income households, as defined by Section 50079.5, for no fewer than 55 years. (9) The project does not result in an increase in the existing onsite development footprint of structure, structures, or improvements by more than 10 percent. The Project qualifies for the exemption because it would meet all of these requirements.

In addition, the project would be statutorily exempt under Public Resources Code section 21080.5 as CEQA is not required for an “interim motel housing project” or “project” for the conversion of a structure with a certificate of occupancy as a motel, hotel, residential hotel, or hostel to supportive or transitional housing as long as it will not result in the expansion of more than 10 percent of the floor area of any individual living unit in the structure and/or in any significant effects relating to traffic, noise, air quality, or water quality. Again, the project qualifies because it meets these conditions.

STRATEGIC PLAN INITIATIVE:

The Project will help advance the following City Council strategic goals: 1) Investment Strategies/ Risk Management, 2) New Revenue, and 3) Public Safety by securing a grant to provide much needed housing and wrap around services to those experiencing chronic homelessness.

DEPARTMENTAL COORDINATION:

The grant will be administered by the City’s Community Development Department (CDD). CDD will continue to work with the City Attorney and City Manager on finalizing the application and Memorandum of Understanding and any necessary actions to complete the acquisition and development process.

FISCAL AND SUSTAINABILITY IMPACT:

To maximize HCD funding, jurisdictions must agree to a local match of four years of operational subsidy to secure three years from the state. The local match can include emergency housing vouchers (EHVs). The amount for four years of operational subsidy for supportive services is \$2,266,000. Rental subsidy for thirty (30) units assuming no EHVs is approximately \$2,234,000. It is recommended that the City provide \$4.5 million as a local match that would cover four years of subsidy for supportive services and rental subsidy for thirty (30) units. If more than 68 households living in these projects have EHVs than the total amount of rental subsidy would be reduced. The City will also seek additional funding from the County and Continuum of Care to help subsidize these projects and reduce the City’s commitment.

Funding would come from the following sources:

- \$2,266,000 – HOME ARP (special American Rescue Plan funds)
- \$1,234,000 – Permanent Local Housing Allocation (over 5 years)
- \$1,000,000 – American Rescue Plan Act (ARPA) from the Homeless Motel Program

The HOME ARP funds are not related to the ARPA funds (approximately \$52 million) that the City received. These funds are HUD entitlement funds through the American Rescue Plan specifically designed to address homelessness and homeless prevention created by the pandemic.

In addition to this local match, it is recommended that the City Council exempt these projects from Salinas Development Impact Fees in an amount not to exceed \$600,000. Pursuant to Chapter 9, Article V, Section 9-44 (h), the City Council may exempt governmentally assisted low-income housing units from development impact fees. This would be consistent with the Salinas Plan,

which has set a goal of facilitating the development of 4,000 affordable housing units over the next 10 years. This is especially difficult for projects for the extremely low-income (0% to 30% of area median income) like these projects because of the high subsidy needed to cover rent. These projects are not feasible without significant support from federal, state, and local government. The City has been able to make these projects viable by exempting or deferring development impact fees. If not for these exemptions or deferrals, the City would have to replace with other revenue to subsidize these projects.

If these projects receive a Homekey grant award, it may be necessary to return to City Council to formerly appropriate the local match as required by the funding source. At that time, City Council may revisit the breakdown of funding if other funding sources are secured or identified.

ATTACHMENTS:

- City Resolution Authorizing Homekey Application Submittal including MOU with Shangri-La and Step Up, Waiver of up to \$1 million in Development Impact Fees, and \$4.5 million in Local Match
- HCD Authorizing Resolution for Joint Applications to and Participation in the Homekey Program
 - HCD Resolution for Sanborn Inn
 - HCD Resolution for the Salinas Inn
- Draft Homekey MOU with Shangri-La and Step Up