



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: OCTOBER 11, 2022

DEPARTMENT: COMMUNITY DEVELOPMENT DEPARTMENT

FROM: MEGAN HUNTER, DIRECTOR

THROUGH: ROD POWELL, PLANNING MANAGER

BY: CRISTINA GONZALEZ, COM. DEVELOPMENT ANALYST

TITLE: SUBMIT APPLICATION TO THE CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD) FOR THE CITY'S 2021 ALLOCATION OF THE PERMANENT LOCAL HOUSING ALLOCATION PROGRAM (PLHA) FUNDS AND ADOPT AN AMENDMENT TO THE CITY PLHA PLAN.

RECOMMENDED MOTION:

A motion to approve a Resolution:

1. submit an application to the California Department of Housing and Community Development (HCD) for the City's 2021 Allocation Year of the Permanent Local Housing Allocation Program (PLHA) funds; and
2. adopt amendment to the City's 5-Year PLHA Plan (City and State Resolution).

EXECUTIVE SUMMARY:

On June of 2020, the City Council adopted a resolution to submit an application and 5-Year Plan for PLHA grant funds. HCD approved the City's PLHA Plan, and the agreement for the first year of funds in the amount of \$1,006,847 was executed in May of 2021. The City's allocation in the second year was \$1,564,592. On August 17, 2022, HCD released a NOFA for the third year's allocation. The City's allocation in the third year (2021) is \$1,722,182. Staff has prepared an application for the third-year funds, and an updated 5-Year Plan for utilization of the funds to align with the City Councils goals and the commitment of PLHA funds. The City's amended PLHA Plan will reallocate percentage funds among its selected eligible actives for years two (2) and three (3). This modification is in response to the executed MOUs between the City and Shangri-La Industries LLC and Step Up on Second Street, Inc. for the development, property management and case management at the Sanborn Inn and Salinas Inn Motel/Hotel conversation. Through these MOUs, the City committed \$1,014,000 of PLHA fund to the Sanborn Inn project and \$220,000 to Salinas Inn project for the provision of supportive services and rental subsidies.

BACKGROUND:

In 2017, Governor Brown signed a 15-bill housing package aimed at addressing the state’s housing shortage and high housing costs. Specifically, it included SB 2, referred to as the “Building Homes and Jobs Act.” SB 2 establishes a permanent, on-going source of funding dedicated to promoting and facilitating affordable housing development. SB2 funding is secured through a fee that is imposed at the time of recording of every real estate instrument, paper or notice for each single real estate transaction on a parcel of property. The recording fees range from \$75 to \$225 depending upon the nature and scope of the property transaction. Sales transactions for single-family homes are exempt from this fee. PLHA funding will vary from year to year as revenue is dependent on fluctuating real estate transactions. Approximately \$335 million in statewide revenue has been earmarked for local government affordable housing grants as a result of this fee.

SB 2 prescribes that revenue collected for the 2019 calendar year be deposited into the Building Homes and Jobs Trust Fund. Seventy percent (70%) of the Fund has been made available to HCD to assist local governments in eligible housing-related projects and programs. On February 26, 2020, HCD published a NOFA for Permanent Local Housing Allocation Program allocation. Applications were accepted beginning April 27th through July 27th of 2020. Under this grant program, the PLHA funds allocated to each Entitlement Local government is directly proportionate to each Entitlement Local government’s share of total 2017 Community Development Block Grant (CDBG) allocation. As an entitlement jurisdiction, the City of Salinas was allocated \$1,006,847 for year one (2019 Allocation) and \$1,564,592 for year 2 (2020 Allocation) For year three (2021 Allocation), the City is expected to receive \$1,722,182. The PLHA Plan established by HCD is set to provide funding for five years (2019 – 2023).

PLHA Entitlement Local Government Allocation for Salinas		
Allocation Year	Allocation Amount	Estimated 5-Year Funding Amount
2019	\$1,006,847	\$6,041,082*
2020	\$1,564,592	
2021	\$1,722,182	

The purpose of the PLHA Grants Program is to fund housing-related projects and programs that assist in addressing the unmet housing needs of local communities. The City selected the below four (4) eligible activities:

- Extremely low-, very low-, low-, or moderate-income affordable housing development
- Accessory Dwelling Unit (ADU) production
- Matching portions of funds placed into Local or Regional Housing Trust Funds or available through the Low- and Moderate-Income Housing Asset Fund
- Assisting persons who are experiencing or at risk of homelessness

Only jurisdictions that have submitted a recent Housing Element Annual Progress Report and maintain an HCD-compliant Housing Element are eligible to receive PLHA funds. The City complies with these requirements.

DISCUSSION:

HCD gives cities flexibility with the PLHA Plan to meet the needs of the community, and changes can be made with proper notice to the community. With this flexibility in mind, staff is proposing the PLHA Plan be updated to reflect the current, critical homeless needs in the community and address the City Council commitment of PLHA funds to the Sanborn Inn and Salinas Inn Homekey projects. On November 16, 2021, City Council approved Resolution #22252 to submit applications to HCD for the Homekey Program for the conversion of two (2) motels for permanent supportive housing. This resolution authorized the City Manager or designee to finalize a Memorandum of Understanding (MOU) between the City, and Shangri-La Industries LLC and Step Up on Second Street Inc. to be executed by the Mayor and approving a local match of up to \$4.5 million consisting of HOME American Rescue Plan (HOME-ARP), PHLA, and American Rescue Plan Act (ARPA).

In December of 2021, the MOUs were formally executed. Through these MOUs, the City formally committed \$1,014,000 to the Sanborn Inn and \$220,000 to the Salinas Inn for a total of \$1,234,000 of PLHA funds toward these two projects. For the City to carry forward with this commitment, the PLHA allocations under year two (2) will need to be revised. The 40% allocation for the development of multifamily rental at 60% AMI or below, as well as the 30% allocation for the matching funds toward the creation of a Local Housing Trust Fund (LHTF) will be transferred toward the fourth activity, Homeless Services. With this reallocation of funds and combined allocation from years one (1) and two (2), the City will have a total of \$1,529,903 toward Homeless Services activities. The \$1,234,000 committed to the Salinas Inn and Sanborn Inn for supportive services and rental subsidies will come from this amount. This modification to the City's 5-Year PLHA Plan will also enable the City to meet HCD's commitment requirement so that the City can receive its third-year allocation (2021) of \$1,722,182.

Proposed PLHA Plan Changes

The following chart outlines the current and proposed PLHA Plan. The proposed changes are to fund critical homelessness programs in the City and fulfill the commitments to the above stated Homekey projects. This is not to say that the programs listed under the current PLHA Plan are not important, rather that homeless projects and programs are one of the Council's highest priorities right now. Should additional funding be needed for any of the four eligible activities that the City selected as part of its PLHA Plan, the Plan can be amended again following HCD's prescribed process. Any future amendments will require a 10-day comment period, which will include a public hearing for the public. See the below current and amended City's 5-Year PLHA Plan.

Current City 5-Year PLHA Plan

City of Salinas HCD PLHA Activities (Years 1-5 Allocation)					
Activity Description	Percent Budget Per Year				
	1	2	3	4	5
Program Administration	5%	5%	5%	5%	5%
Development of multifamily rental at 60% or below AMI	75%	40%	50%	40%	40%
ADU Financing – Grants & Loans	0%	10%	0%	10%	10%
Matching Funds for Local Housing Trust Funds.	0%	30%	30%	30%	30%
Homeless Services – Rapid Rehousing, Rental Assistance, Case Management & Housing Navigation, Navigation Centers & Emergency Shelters, Transitional & Permanent Supportive Housing	20%	15%	15%	15%	15%
Totals	100%	100%	100%	100%	100%

Amended City 5-Year PLHA Plan

City of Salinas HCD PLHA Activities (Years 1-5 Allocation)					
Activity Description	Percent Budget Per Year				
	1	2	3	4	5
Program Administration	5%	5%	5%	5%	5%
Development of multifamily rental at 60% or below AMI	75%	0%	70%	40%	40%
ADU Financing – Grants & Loans	0%	10%	0%	10%	10%
Matching Funds for Local Housing Trust Funds.	0%	0%	0%	30%	30%
Homeless Services – Rapid Rehousing, Rental Assistance, Case Management & Housing Navigation, Navigation Centers & Emergency Shelters, Transitional & Permanent Supportive Housing	20%	85%	25%	15%	15%
Totals	100%	100%	100%	100%	100%

Affordable Housing Development

The Salinas Plan highlights the urgent need to provide affordable housing for low-income and very low-income families with a target of 4,000 affordable housing units over the next ten years. For this reason, the largest percentage of funding 75% in the first year, 70 % in year 3, and 40% in years four and five is recommended in this category. It is anticipated that the PLHA can leverage other financing resources such as California Tax Credits Allocation Committee (CTCAC) or HUD programs including HOME Investment Partnership (HOME), Emergency Solutions Grant (ESG), Community Development Block Grant (CDBG), HOME ARP, and ARPA funds.

Local Housing Trust Fund

Salinas Plan prioritizes the establishment of a Local Housing Trust Fund (LHTF) as a means to help facilitate affordable housing development. The City will create a LHTF and provide loans and/or grants for affordable rental housing targeted to households that are 60% AMI or below. The City will be working on submitting an application to HCD for LHTF in years four and five. If funding is awarded, the City will promote the LHTF as a funding resource for affordable housing projects. The LHTF will be geared toward shovel-ready multi-family affordable rental housing projects. All new units created with these funds will maintain a 55-year affordability period.

Homeless Services

According to the 2019 homeless census, more than half of County's unsheltered population live in the City of Salinas (nearly 1,000 individuals). As highlighted in the Salinas Plan, this does not account for people who are functionally homeless and living in overcrowded, unsafe housing situations. Addressing homelessness consistently ranks among citizens as a top priority. To reduce homelessness, the City has taken on a more active role in providing homeless services from opening the County's first navigation center to contracting with Downtown Streets Team. The PLHA recommendation is to commit 20% of funding in the first year, 85% in year two, 25% in year three and 15% in years four and five. The allocation will help to various best practices in reducing homelessness, such as: rapid rehousing, rental assistance, supportive/case management services that allow people to obtain and retain housing, operating and capital costs for navigation centers and emergency shelters, and the new construction, rehabilitation, and preservation of permanent and transitional housing.

Accessory Dwelling Unit Production

The development of Accessory Dwelling Units (ADU's) Program may be the City's best hope for quickly ramping up housing production. Recent policy changes, such as the impact "fee holiday," have accelerated production of ADU's. Despite this success, ADU financing continues to be a barrier to production. The City's HCD PLHA Grant Funds will be used to begin a new Accessory Dwelling Unit (ADU) Financing Program during this Plan. The PLHA ADU allocation will be used to establish a revolving loan fund for predevelopment costs and/or hard construction costs directly associated with the construction of new ADUs within City limits. Therefore, the City hopes to use the PLHA to establish a small loan fund for ADUs while securing additional financing through local banks. Thus, staff recommends no changes to the allocation of funds.

Public Notice

As required by HCD, the City provided a 10-day of public notice prior to the public hearing so that the public had adequate opportunity to review the amendment to the City's 5-Year PLHA

Plan. The City published a public hearing notice in the Californian Newspaper on October 8, 2022. The City also posted physical copies of the public notice in both English and Spanish at City Hall, Rotunda, Community Development Department (CDD) and all City libraries on Friday, October 7, 2022. Both notices were also published on the City's CDD website. In addition, the city held a Housing and Land Use Committee meeting on October 11, 2022, to provide additional opportunities for input ahead of the scheduled public hearing at City Council on October 18, 2022.

CEQA CONSIDERATION:

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).

STRATEGIC PLAN INITIATIVE:

Acceptance of the third year PLHA award and amendment to the City's 5-Year PLHA Plan supports the provision of needed affordable housing, ADU production and homeless services. This initiative supports City of Salinas 2022-2025 Strategic Plan Goals and Strategies including *Housing/Affordable Housing, Economic Development, Youth and Seniors and Effective and Culturally Responsive Government*.

DEPARTMENTAL COORDINATION:

This agenda item is administered by the CDD's Housing Division in coordination with the City Attorney and Finance Department.

FISCAL IMPACT:

Acceptance of the third year PLHA award and amendment to the City's 5-Year PLHA Plan has no impact to the City's General Funds. PLHA does not require a local financial commitment or "match" from local jurisdictions requesting grant funds.

Shall the City create a Local Housing Trust Fund in year four (4), the City will provide a local match. For this item, City staff will need to submit an application to HCD and will come back to City Council to identify the funding source of the local match.

ATTACHMENTS:

Attachment A: PLHA City Resolution
Attachment B: PLHA State Resolution
Attachment C: 2022 PLHA Application
Attachment D: PLHA Plan Amendment (5 Year Plan)
Attachment E: PLHA Plan 2020 (Original 5-Year Plan)
Attachment F: MOU for the Sanborn Inn Motel/Hotel Conversion
Attachment G: MOU for the Salinas Inn Motel/Hotel Conversion
Attachment H: Resolution No. 22252