



ADMINISTRATIVE REPORT

File #: 22-022

Meeting Date: 1/18/2022

*Report Prepared by: Kimberly Nutt, Housing Program Supervisor/Housing Division, and Scott McBride, Development Services Director/Development Services Department*

**SUBJECT:** Adoption of a Resolution Authorizing the Submittal of a Joint Application and Participation in the State of California Housing and Community Development (HCD) Homekey Program

**REPORT IN BRIEF**

Authorizes the submittal of a joint application and participation in the State of California Department of Housing and Community Development Department (HCD) Homekey Program.

**RECOMMENDATION**

**City Council** - Adopt a motion:

- A. Adopting Resolution **2022-03**, a Resolution of the City Council of the City of Merced, California, authorizing a joint application and participation in the Homekey Program; the execution of a standard agreement if selected for such funding and any amendments thereto; and any related documents necessary to participate in the Homekey Program; and,
- B. Authorizing the City Manager or Deputy City Manager to execute the Standard Agreement if selected for such funding and any amendments thereto, and any related documents necessary to participate in the Homekey Program; and,
- C. Authorizing the Finance Officer to make any budget amendments necessary for the implementation of the use of the Homekey Program; and,
- D. Authorizing the use of pooled cash until reimbursement if grant is awarded from the Homekey Program.

**ALTERNATIVES**

- 1. Approve, as recommended by staff; or,
- 2. Approve, with modifications; or,
- 3. Deny the request completely; or,
- 4. Refer to staff for reconsideration of specific items as requested by Council; or,
- 5. Continue to a future City Council meeting (date and time to be specified in the motion).

**AUTHORITY**

Charter of the City of Merced, Section 200.

## **CITY COUNCIL PRIORITIES**

Fiscal Year 2021/22 Adopted Goals and Priorities, 4. Housing and Homelessness, ii.

## **DISCUSSION**

The State of California HCD has issued a NOFA for funding under the Homekey Program. A copy of the NOFA is attached. This funding program is highly competitive, and awards are awarded based on a first come basis using a geographic basis.

Administered by the California Department of Housing and Community Development (HCD), approximately \$1.4 billion (FY 2021-22) in grant funding will be made available to local public entities, including cities, counties, or other local public entities, such as housing authorities or Tribal Entities within California.

Homekey is 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 or Interim Housing for the Target Population.

Eligible Applicants - Homekey requires lead applicants to be cities, counties, cities and counties, and all other state, regional, and local public entities, including councils of government, metropolitan planning organizations, and regional transportation planning agencies designated in Section 29532.1 of the Government Code; or Tribal Entities. Each of the foregoing entities may apply independently, or each entity may apply jointly with a nonprofit or for-profit corporation as a Co-Applicant.

Geographic Distribution - Because COVID-19 impacts people experiencing or at risk of homelessness throughout California, HCD is working to ensure jurisdictions throughout the state have an equitable opportunity to apply for Homekey funds.

Eligible Uses / Projects - Awarded funds must be used to provide housing for individuals and families experiencing homelessness or who are at risk of homelessness.

The list of eligible Homekey uses is as follows:

1. Acquisition or rehabilitation, or acquisition and rehabilitation, of motels, hotels, hostels, or other sites and assets, including apartments or homes, adult residential facilities, residential care facilities for the elderly, manufactured housing, commercial properties, and other buildings with existing uses that could be converted to permanent or interim housing.
2. Master leasing of properties for non-congregate housing.
3. Conversion of units from nonresidential to residential.
4. New construction of dwelling units.
5. The purchase of affordability covenants and restrictions for units.
6. Relocation costs for individuals who are being displaced as a result of the Homekey Project.
7. Capitalized operating subsidies for units purchased, converted, constructed, or altered with

funds awarded under the Homekey Round 2 NOFA for FY 2021-22.

Eligible Housing Types - Under Homekey, local entities will acquire and rehabilitate a variety 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 or Interim Housing for the Target Population.

Homekey Grant funds: \$1.45 billion (FY 2021-22)

- Of the \$1.45 billion in Homekey funding, \$1.2 billion is derived from the Coronavirus State Fiscal Recovery Fund (CSFRF) established by the federal American Rescue Plan Act of 2021 (ARPA) (Public Law 117-2) and \$250 million in state General Funds.
- Capital funds must be expended within eight months of the date of award, as required by statute. For Projects that involve acquisition and are receiving capital awards, Grantees must expend the funds by the expenditure deadline and the project escrow must be closed by the expenditure deadline. To meet this requirement, the Department (HCD) will provide ongoing support to assist Grantees and has developed an accelerated award and disbursement process.
- All operating funds must be fully expended by the recipient by no later than June 30, 2026.

Homekey Round 2 Key Items

- **Capital Award Per Door** - \$150,000 - \$200,000. Higher level of support for Homeless Youth or Youth At Risk of Homelessness, Chronically Homeless, and Family Units. Award level must be justified by appraisal and other documentation.
- **Capital Match** - 1:1 up to an additional \$100,000 per door.
- **Operating Award per Unit** - \$1,000 - \$1,400 per Assisted Unit per month. Higher level of support for Homeless Youth or Youth At Risk of Homelessness and Chronically Homeless. Award level must be justified by appraisal and other documentation.
- **Operating Match** - Two (2) years if Applicant commits three (3) years of operating funding; Three (3) years if Applicant commits four (4) years of operating funding.
- **Capital Expenditure Deadline** - Eight (8) months from the date of the award, per statute.
- **Operating Expenditure Deadline** - June 30, 2026
- **Occupancy Deadline** - Within 90 days of construction or rehab completion.
- **Bonus Awards** - For applications submitted by January 31, 2022; for expedited occupancy within eight (8) months of award.

### Proposed Project

This is the second Homekey Resolution that the City Council has been asked to support. The previous one was for a motel conversion. This project is new development construction.

City previously issued a Request for Proposals (RFP) on vacant sites owned by the Housing Successor Agency to the former Merced Redevelopment Agency. The location of 73 South R St. had one proposal from a partnership between Certified Containers 915 and Merced Rescue Mission.

They have formed a new entity under the name CC915 Merced, Inc.

Their goal was to create a small village concept to provide permanent supportive housing for Veterans. The City Council supported the project and provided authority to enter into an Exclusive Negotiation Agreement (ENA). The ENA provides the potential developer with the assurance that they will be the only party in negotiations to acquire the site. The agreement has currently not been executed. The focus has been on identifying and applying for funding programs to support the project. Homekey is the primary funding source being sought at this time.

The proposed project site is just over 20,000 square feet and is a single parcel with a Low Density Residential General Plan designation and a corresponding R-6 Zoning designation. To provide for the number of units to make the project feasible, the intent is to utilize new opportunities provided under SB9 in conjunction with a Density Bonus. This approach avoids a much lengthier and costly process than a General Plan Amendment and Zone Change. Land use entitlements are not necessary for the Homekey application, however the program does have a tight window, 8 months, following award for construction to be complete. That period provides for the maximum allocation to support the project. It should be noted that SB9 is a ministerial process, and the use of Density Bonus is subject to City Council consideration if the intent is to seek waivers or concessions. That determination will be made when a more final Site Plan is prepared.

The project will consist of container units, each are 40 feet by 8 feet, which will be split to allow for two studio units in each container. HCD funds projects based on doors so each unit could have two doors. They will be clustered or combined into multiple units similar in scale to a house, but will potentially accommodate four to six clients in each cluster. It appears that the site may provide room for approximately 20 doors. However, there is an existing sewer line and easement which runs through the site and has to be designed around. Units may be stacked to make a first and second floor if necessary. Additionally, one or more units will be located on site to provide for onsite management and other common facilities to provide services and support other activities. Although Homekey provides a funding path to allow for a conversation from “transitional support” to “permanent support” the intent is to have the units fully completed prior to occupancy. It would open ready for permanent supportive services.

In addition to the physical development Homekey also supports the operations of the facility and requires a service plan as part of the application. The co-applicant has been working with other partners to provide services under the plan. Those include Merced County Behavioral Health and Recovery Services as well as the Veteran’s Administration.

The project is seeking approximately \$5,000,000 in Homekey Funds. Although the Council provided project support through the ENA related to the Site it has not considered other financial support for the project. The Homekey funding is the primary source being sought, however if not awarded, Staff and the co-applicant may return with other options for the Council to consider and provide direction. The site itself may be considered in kind support and has a current appraised value of \$110,000.

## **IMPACT ON CITY RESOURCES**

Homekey funding is currently not included in the Fiscal Year 2021-22 adopted City Budget. The approval actions by the City Council provides authorization to the Finance Officer to make any Budget Amendments Necessary for the implementation of the use of the Homekey Program Funds including the use of pooled cash if necessary.

**ATTACHMENTS**

1. City Council Resolution 2022-03 Authorizing a Joint Application to the State of California HCD Homekey Program
2. Homekey Notice of Funding Availability (NOFA)