



DATE: December 19, 2024
TO: Housing Policy and Resource Committee
FROM: Assistant City Manager
SUBJECT: Homekey+ Request for Information: Discussion of Project Feasibility

RECOMMENDATION

That the Committee receives an update on the City's Request for Information to solicit potential projects to submit for a competitive application to the State Department of Housing and Community Development's (HCD) Homekey+ grant program.

SUMMARY

State HCD released a Notice of Funding Availability (NOFA) for the Homekey+ program on November 26, 2024. Prior to releasing the NOFA, they provided summary materials about the new program, which is the permanent supportive housing component of funding of the March 2024 State Proposition 1 Behavioral Health Infrastructure Bond Act. Staff used the summary materials along with learnings from applying to Rounds 2 and 3 of the Homekey program to create a Request for Information (RFI) for eligible, competitive programs for Homekey+ funding. The RFI was released on October 31, 2024, and received no eligible responses.

Given Council and community questions about the feasibility of Hayward submitting an application to Homekey+ for a motel conversion project, staff have invited a developer with experience completing Homekey-funded motel conversions in other jurisdictions to discuss what is required for successful projects. This discussion is intended to highlight potential opportunities and challenges associated with a motel conversion project using Homekey+ funds.

BACKGROUND

The homelessness crisis is a difficult and persistent regional issue. The comprehensive efforts needed to dramatically reduce homelessness in Hayward, the Bay Area, and the state require ongoing investment and collaboration to make homelessness a rare, brief, and one-time experience. The City of Hayward has long identified homelessness and housing affordability as key issues in the community and has supported local, regional, and state efforts to address these

issues. Council continues to prioritize addressing these issues by including Preserve, Protect, and Produce Housing for All as a priority area in the City's Strategic Roadmap.¹ Council most recently discussed the City's efforts to prevent and respond to homelessness at a work session held on December 17, 2024.²

On November 26, 2024, HCD released a Notice of Funding Availability (NOFA) for the Homekey+ Program, which is the permanent supportive housing component of funding of the March 2024 State Proposition 1 Behavioral Health Infrastructure Bond Act. Homekey+ funds are intended to provide Permanent Supportive Housing (PSH) for individuals or households with an individual who is homeless, chronically homeless, or at risk of homelessness, and who are also living with a behavioral health challenge. HCD is making approximately \$2.1 billion available, with about half of the funds set aside for projects serving veterans.

Like the Homekey program, Homekey+ emphasizes supporting capital costs associated with developing PSH. It funds acquisition and rehabilitation of motels, homes, apartment complexes, commercial properties, and other infrastructure; conversion of nonresidential units to PSH or conversion of interim housing to PSH (i.e., adaptive reuse); new construction; master leases; gap financing; purchase of affordability covenants; relocation costs associated with these uses; and capitalized operating subsidies.

Homekey+ has some key differences from prior rounds of Homekey funding:

- All funded units must be reserved for individuals (and their households, if applicable) with a behavioral health challenge
- Interim housing is no longer an eligible use; projects must provide PSH
- HCD will match up to \$200,000 per door for capital costs
- HCD will provide operating funds match if the applicant commits to provide operating funds for three or four years. The amount of funding provided by HCD would be one year less than the amount committed by the applicant not to exceed four years.
- HCD will consider gap financing applications for projects that serve the eligible population and have not begun construction

Applications for Homekey+ funding are reviewed on a first-come, first-served basis and are due no later than May 30, 2025.

DISCUSSION

The City of Hayward applied for Homekey funding in Rounds 2 and 3 and staff are now reviewing potential projects to submit for the new Homekey+ program. In November 2021, the City issued a Request for Information (RFI) for Round 2 of Homekey funding and received fifteen responses. Of those fifteen, six were from property owners seeking to be acquired for Homekey, eight were applications with a developer and property, and one was from a developer expressing a willingness to partner with the City. Staff presented the three most

¹ Materials related to the City's Strategic Roadmap are available online at <https://www.hayward-ca.gov/your-government/documents/hayward-strategic-roadmap>

² December 17, 2023, City Council Meeting Agenda and Materials:

feasible projects to the Homelessness-Housing Task Force and ultimately applied for Homekey funding for two of them. Neither were funded due to issues meeting threshold requirements; however, staff and project partners learned from the process and re-submitted one of the projects for Round 3 of Homekey.

In Round 3, the City partnered with Bay Area Community Services Housing Corporation (BACS) and the City of Union City to successfully apply for and receive \$8.3 million to acquire and rehabilitate six single-family homes in Hayward and one in Union City. This scattered site, shared housing program, called Project Reclamation, will provide PSH to between 30 and 35 individuals in Hayward. Project Reclamation was one of the fifteen responses to the City's November 2021 RFI.

Staff learned important lessons from the first RFI process and from working with HCD on two rounds of Homekey applications. Those learnings informed a new RFI that staff released on October 31, 2024. The RFI was based off overview materials provided by HCD before the Homekey+ NOFA was released and leveraged learnings from prior rounds of funding. It prioritized projects that are shovel ready with an identified property, developer, and operator. It also sought projects with an identified operating subsidy, with prioritization for projects that identified 15 years of operating funds, as HCD previously required a 15-year cash flow in the application.

Only one applicant responded to the RFI and it did not meet the eligibility criteria. Given Council and community questions about the feasibility of Hayward submitting an application to Homekey+ for a motel conversion project, staff have invited a developer with experience completing Homekey-funded motel conversions in other jurisdictions to discuss what is required for successful projects. This discussion is intended to highlight potential opportunities and challenges associated with a motel conversion project using Homekey+ funds.

ECONOMIC IMPACT

Homekey+ projects increase the supply of permanent supportive housing, which has a positive economic impact from reducing homelessness and improving efforts to prevent homelessness.

FISCAL IMPACT

There is no fiscal impact associated with this discussion; however, there is an impact associated with any future Homekey+ applications. Homekey+ requires a local match for operating subsidy and all projects have affordability and operating restrictions for a minimum of 55 years. Additionally, depending on the development budget, a project may require a local match for capital expenses that exceed the \$200,000 per door award. At the time of this report writing, there are no local funds available for this match.

STRATEGIC ROADMAP

This agenda item supports the FY 2024-2025+ strategic priority of Preserve, Protect & Produce Housing. Specifically, this item relates to the strategy to invest in programs to house and support people experiencing homelessness:

H5. Leverage partnerships to support acquisition and rehabilitation projects through State Homekey funding

PUBLIC CONTACT

There was no public contact for this specific item.

NEXT STEPS

Staff will continue to evaluate potential competitive projects for Homekey+ and future funding rounds and will bring viable projects to this Committee for discussion.

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Approved by:



Dustin Claussen, Interim City Manager