



**DATE:** June 20, 2023

**TO:** Mayor and City Council

**FROM:** City Manager

**SUBJECT:** Adopt a Resolution Authorizing a Joint Application to and Participation in the State Homekey Program for the Project Reclamation Scattered Site Program in a Total Not-to-Exceed Amount of \$10 Million, for which the California Environmental Quality Act Does Not Apply

## **RECOMMENDATION**

That the City Council adopt a resolution (Attachment II) authorizing the City of Hayward's joint application to and participation with Bay Area Community Services (BACS), the City of Livermore, the City of Union City, and the City of Piedmont to the California Department of Housing and Community Development (HCD) for Homekey funding for the Project Reclamation Regional Scattered Site Program in a total not-to-exceed amount of \$10 million.

## **SUMMARY**

On March 29, 2023, HCD announced approximately \$736 million in available Homekey Round 3 funds. In addition, HCD announced it would set aside \$40 million of its Discretionary Reserve to support up to four \$10 million awards to single-family home scattered site projects. Scattered site applicants can apply for a conditional award, receiving funding upon condition that they will have site control within 60 days of the conditional award and meet other threshold requirements within 90 days of the conditional award. The application deadline for projects funded by the Discretionary Reserve is June 30, 2023.

Staff recommends that Council adopts a resolution authorizing the City's joint application to and participation in Round 3 of Homekey to secure up to \$10 million in funding for Project Reclamation, alongside BACS and the City's regional partners.

## **BACKGROUND**

On June 29, 2020, Governor Gavin Newsom signed Assembly Bill 83 (2020) into law. AB-83 consisted of a wide-ranging suite of initiatives addressing housing and homelessness, including

the creation of Project Homekey.<sup>1</sup> The Homekey program was created as an opportunity for local public agencies to purchase motels and other housing types to increase their communities' capacity to respond to the COVID-19 pandemic. The program's purpose was to expand and diversify housing options for homeless persons at high risk for serious illness and impacted by COVID-19. Cities, counties, or other local public entities, including housing authorities or federally recognized tribal governments within California, were eligible to apply independently or jointly as the lead applicant with a non-profit or a for-profit corporation.

On July 13, 2021, the Council adopted the Let's House Hayward! (LHH) strategic plan.<sup>2</sup> The plan was developed through best-practices research and community engagement with a lens for racial equity and empowering individuals and families experiencing homelessness. The LHH plan articulates the overarching goals for reducing homelessness in Hayward and the strategies and action steps required to achieve those goals. Applying for Homekey funding for Project Reclamation aligns with the LHH goal of exploring innovative, cost-effective housing options for residents experiencing homelessness.

The City first applied for Homekey funding in response to the Round 2 notice of funding availability (NOFA) issued in the fall of 2021. The City of Hayward released a RFI for eligible Homekey projects in October 2021 and interviewed applicants in November 2021. On December 16, 2021, staff proposed three projects to the Homelessness-Housing Task Force (HHTF).<sup>3</sup> Members of the HHTF unanimously recommended these projects be presented to the full Council for approval and inclusion in the City of Hayward's Homekey Round 2 application. After one applicant removed their project from consideration, staff presented two projects for Council approval and inclusion in the Round 2 grant application, including the joint Project Reclamation Regional Scattered Site Program alongside BACS and the Cities of Livermore, Union City, and Piedmont. On January 15, 2022, the Council adopted Resolution 22-030, authorizing the City to apply for and participate in Round 2 of Homekey.<sup>4</sup>

In a determination letter dated April 14, 2022, HCD deemed the Project Reclamation application ineligible due to not meeting two threshold requirements: 1) submission of a property appraisal; and 2) demonstration of site control at the time of application. The City and its Project Reclamation co-applicants appealed the denial, highlighting the strong alignment of the scattered site framework with the goals of Homekey and the unfeasibility and risks of securing site control and appraisals in the single-family home market on the timelines dictated

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<sup>1</sup> AB-83 Housing (2019-2020). California Legislative Information.

[https://leginfo.ca.gov/faces/billTextClient.xhtml?bill\\_id=201920200AB83](https://leginfo.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB83)

<sup>2</sup> July 13, 2021 meeting of the Hayward City Council:

<https://hayward.legistar.com/LegislationDetail.aspx?ID=5028014&GUID=E5369F11-C504-413E-B317-E2797DF45328&Options=&Search=>

<sup>3</sup> December 16, 2021 meeting of the Homelessness-Housing Task Force:

<https://hayward.legistar.com/LegislationDetail.aspx?ID=5360310&GUID=71CA4C4F-CC27-410E-AEDE-27F03B400C19&Options=&Search=>

<sup>4</sup> January 25, 2022 meeting of the Hayward City Council:

<https://hayward.legistar.com/LegislationDetail.aspx?ID=5390892&GUID=B276DA40-2A6A-46C1-A313-28235E575135&Options=&Search=>

by the program guidelines. HCD ultimately did not accept the City's Round 2 appeal. Staff subsequently coordinated with its development partners and the City's legislative advocacy consulting firm, Townsend Public Affairs, to advocate with HCD and elected officials for changes to Homekey threshold provisions that would enable scattered site programs to qualify for Round 3.

On June 30, 2022, the Governor approved AB 179, the Budget Act of 2022, which included an award to the City of Hayward in the amount of \$5.4 million for the City's scattered site program. The City submitted this project for consideration along with several other housing and homelessness prevention projects to the State legislature for consideration as a budget earmark project. On December 6, 2022, Council adopted Resolution 22-299, loaning the AB 179 funds to BACS to leverage future Homekey funding.<sup>5</sup> Loaning the AB 179 funds to BACS allows BACS to acquire homes in advance of Homekey Round 3, securing site control and increasing the competitiveness of a Round 3 application and creating a revolving loan fund for future Homekey applications.

On March 23, 2023, HCD announced approximately \$736 million in Homekey Round 3 available funds. HCD made several key changes to the Round 3 guidelines, including creating a scattered site set aside that allows scattered site applicants to receive conditional awards of up to \$10 million without having to meet the threshold requirements that resulted in the denial of the City's Round 2 application. These key changes are outlined in more detail in the Discussion section below.

## **DISCUSSION**

### **Project Reclamation Program Overview**

Project Reclamation is a model of single-family shared housing that BACS has operated for several decades. In partnership with the Cities of Hayward, Union City, Livermore, and Piedmont, BACS will purchase and remodel single-family homes to function as deeply subsidized co-living environments where each resident gets their own bedroom, shared community living spaces, and access to supportive services to meet their unique needs. This model aligns with the City's LHH Plan. For this project, the City of Hayward would be the lead applicant in a regional application, partnering with the Cities of Livermore, Union City, and Piedmont, to increase the competitiveness of the project by broadening the regional impact and scope of acquisitions.

The BACS Project Reclamation program received Homekey funding for its Oakland program in Round 1 and was recognized by the State for its innovative use of Homekey funding. The model successfully preserves naturally occurring affordable housing by preventing large corporate purchases of homes, which are then rented at market rate. Homekey requires that all permanent supportive housing projects establish a 55-year affordability covenant, restricting the use and affordability of the project to align with Homekey for at least 55 years.

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<sup>5</sup> December 6, 2022, meeting of the Hayward City Council:  
<https://hayward.legistar.com/LegislationDetail.aspx?ID=5955257&GUID=5B2A0638-83AF-43B9-A62E-C8D58632C3BC&Options=&Search=>

Staff anticipates between three and five homes will be acquired in Hayward, providing permanent housing to between 15 and 30 individuals experiencing homelessness in Hayward. BACS has begun identifying homes that meet program criteria throughout Hayward. Given the target price point of the homes (approximately \$900,000), many prospective homes are located between Interstate 880 and Mission Boulevard. As BACS has been operating this program for several years, they have well-established outreach strategies that they will apply to this project and will implement community-specific outreach as properties are identified. In previous experience, BACS has not encountered opposition from community members as the projects do not include density changes or substantial construction.

### **Homekey Round 3 Overview**

The Homekey program provides significant capital funding and matching operating funding for eligible projects to allow local public entities to expand their inventory of housing for people experiencing homelessness. Homekey provides funding the following ways:

- **Per unit capital baseline award:** Homekey provides a maximum grant amount per unit which includes both the acquisition cost and any needed rehabilitation. Staff anticipates that Project Reclamation will receive a baseline capital award of \$150,000 per unit.
- **Operating match:** Homekey provides an operating match of \$1,000 per unit per month for up to three years of operations if the applicant provides four years of operational funding.
- **Additional capital contribution with local match:** Beyond the capital baseline award, applicants can leverage a local one-to-one match to provide up to \$100,000 in additional funds per unit. This match helps close any capital acquisition and rehabilitation gaps.

Following Round 2, HCD solicited and integrated feedback from applicants to improve the Homekey Round 3 Notice of Funding Availability (NOFA). The Round 3 NOFA presents significant funding and programmatic changes from Homekey Round 2.<sup>6</sup> Key elements of the Homekey Round 3 funding available include:

- **Addition of Scattered Site Discretionary Reserve:** HCD will allocate \$40 million from its \$77 million Discretionary Reserve for single-family home scattered site projects. Four scattered site projects will be eligible for a maximum of \$10 million each. To be eligible for these funds, applicants must apply by June 30, 2023. Selected projects will receive a conditional award and will be required to demonstrate site control (i.e., acquire the homes) within 60 days of conditional award and conduct appraisals, physical needs assessments, and applicable environmental reviews within 90 days of the award.
- **Removal of Timely Submission and Expedited Occupancy Bonuses:** HCD removed bonus awards for timely submission and occupancy, so there are no additional awards aside from the per unit capital award and operating match described above.

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<sup>6</sup> The complete NOFA can be found online on the HCD website.

<https://www.hcd.ca.gov/sites/default/files/docs/grants-and-funding/homekey/Homekey-Round-3-Notice-of-Funding-Availability.pdf>

### **Project Reclamation Homekey Application**

Staff are working closely with BACS and the other jurisdictions to update the Round 2 application to align with the key Round 3 changes. Given the \$10 million cap for scattered site programs, the project will have to acquire fewer homes. Staff are estimating that between three and six homes will be acquired in Hayward. The following reflects best estimates at the time of this report and may change depending on the availability of homes on the market following a conditional award from HCD.

**Capital baseline award:** Staff anticipates Project Reclamation will receive a baseline capital award of \$150,000 per unit. This is \$50,000 less than the per unit award estimated in the Round 2 application, as BACS has learned from implementation of Project Reclamation under Homekey funding from Round 1 that the model is inappropriate for the chronically homeless population. Therefore, the Round 3 application proposes serving literally homeless individuals, instead of those experiencing chronic homelessness, for which the state provides a baseline award of \$150,000 per unit.

**Local capital match:** Staff and BACS are basing budget assumptions on properties that will have five units following rehabilitation, which is approximately \$750,000 per home for acquisition and rehabilitation. The Homekey program provides a one-to-one match to cover capital gaps; therefore, staff anticipates a local match requirement of approximately between \$300,000 and \$600,000 in local match required. The source of this match will be the AB 179 funds that the City loaned to BACS through Council action on December 6, 2022.

**Local operating match:** If the applicant can commit four years of operating funding, the Homekey program provides a local operating match of up to \$1,000 per unit, not to exceed three years of implementation. Alameda County has conditionally awarded Project Reclamation \$1.5 million from its federal American Rescue Plan HOME (HOME-ARP) allocation, which will be used for a capitalized operating reserve and will result in a three-year match from the Homekey program.

In summary, staff anticipates that through this application, Hayward will be able to acquire three to five homes to provide permanent housing for 15 to 30 individuals experiencing homelessness. Any required local capital match will be covered by the AB 179 allocation from the state for the City's scattered site program and the local operating match will be covered by the Alameda County HOME-ARP award. The homes will be subject to a 55-year affordability covenant.

### **ECONOMIC IMPACT**

The City and local community have experienced adverse economic impacts related to the COVID-19 crisis, particularly as it relates to homelessness and housing instability. As the region continues to recover from COVID-19, national data indicate increases in risk factors that lead to homelessness, including increased food insecurity and the inability to pay rent or mortgage.

There is a positive economic impact from reducing homelessness and severe housing cost burden, which would be achieved through development of the recommended Homekey project.

**FISCAL IMPACT**

This item has no General Fund impact. The local capital match required for applying for the program will come from AB 179 funds dedicated to the scattered site project and the local operating match will come from Alameda County’s HOME-ARPA contribution.

**STRATEGIC ROADMAP**

This agenda item supports the Strategic Priority of Preserve, Protect & Produce Housing. Specifically, this item relates to the implementation of the following projects:

2b. Implement the Homelessness Reduction Strategic Plan

8b. Apply for state housing funding to support strategic partnerships and Council priorities

**PUBLIC CONTACT**

BACS will conduct targeted community outreach once properties are identified for Project Reclamation.

**NEXT STEPS**

Upon approval by the Council, staff will submit the Homekey application to HCD by June 30, 2023.

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Rick Rivera, Management Analyst II

*Recommended by:* Regina Youngblood, Assistant City Manager

Approved by:



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Kelly McAdoo, City Manager