



# County of San Mateo

## Inter-Departmental Correspondence

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**Department:** HOUSING

**File #:** 23-494

Board Meeting Date: 6/13/2023

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**Special Notice / Hearing:** None  
**Vote Required:** Majority

**To:** Honorable Board of Supervisors

**From:** Raymond Hodges, Director of Department of Housing

**Subject:** Homekey 3.0 Application Submittal and Matching Fund Authorizations

**RECOMMENDATION:**

Adopt a resolution:

- A) Approving and adopting a form resolution from the State Department of Housing and Community Development in the form shown as Attachment A, authorizing the County's application to the Homekey Program for funding in a total amount not to exceed \$27,585,600 to cover capital and operating expenses for the conversion of a hotel to permanent rental housing for people who are experiencing homelessness or chronic homelessness, or are at risk of homelessness (the "Property"); and
- B) Authorizing an allocation of up to \$6,750,000 in federal American Rescue Plan Act ("ARPA") funds, or other funds as determined by the County Executive, representing 1.5 times the estimated required match of local funds for the capital costs of the Property and an allocation of up to \$8,100,000 representing 1.5 times the estimated minimum required match of five years of operating subsidy provided in the form of an award of County Housing Vouchers for the Property; and
- C) Authorizing and directing staff to file a notice of exemption for the Property under the California Environmental Quality Act; and
- D) Authorizing and directing staff to enter into a Memorandum of Understanding with a special purpose entity owned and controlled by Episcopal Community Services of San Francisco (ECS), a California nonprofit corporation ("Special Purpose Entity"), setting forth the terms and conditions under which the Special Purpose Entity as the County's co-applicant for the Homekey award will acquire, rehabilitate, manage, operate and provide supportive services at the Property in the event the County's application for funds from the Homekey Program for the Property is approved and the County acquires the Property; and

- E) Authorizing and directing the County Executive or a designee to finalize the terms of a purchase and sale agreement, option agreement, letter of intent or other evidence of site control, including the purchase price, with the owner of the Property under which the County has the right to purchase the Property subject to the County's receipt of an award of the requested Homekey funding and other conditions determined by the County Executive to be required by Homekey funding or prudent and necessary; and
- F) Authorizing and directing staff to take such further actions with the approval of the County Executive that may be necessary to complete the submission of the Homekey 3.0 application and all required attachments, including but not limited to the Verification of Acceptance, finalize any conditions imposed on the Homekey award, and complete the acquisition of the Property and its conveyance to the Special Purpose Entity if the County receives an award of Homekey funds for the property.

**BACKGROUND:**

In response to the COVID-19 pandemic, San Mateo County, in partnership with community-based homeless service providers, implemented new homeless shelter services in the form of hotel-based non-congregate shelter programs, to provide additional shelter capacity for vulnerable people experiencing homelessness during COVID-19 who are at risk of severe illness if they were to contract COVID-19. The State provided some funding and technical assistance related to non-congregate shelter programs via an initiative known as Project Roomkey. In San Mateo County, there were two Project Roomkey non-congregate shelter programs serving vulnerable people experiencing homelessness: the Offsite Temporary Shelter Program and Bayfront Station. In order to ensure integration with the overall homeless crisis response system and that eligible vulnerable clients were served, these programs were accessible through the County's Core Service Agencies as the coordinated entry points for homeless services.

Building off the success of Project Roomkey, the State created the Homekey Program ("Homekey"), administered by the California Department of Housing and Community Development ("State HCD"), to provide funding to rapidly sustain and expand the inventory of housing for people experiencing homelessness or at risk of homelessness and impacted by COVID-19. Homekey has created an opportunity for local public agencies to purchase hotels, motels and a broad range of other housing types in order to increase community capacity to respond to homelessness and the ongoing COVID-19 pandemic.

State HCD issued its first Notice of Funding Availability (NOFA) for \$600 million in Homekey funding on August 13, 2020. Working in collaboration, the Human Services Agency ("HSA"), the Department of Housing ("DOH") and Real Property Services submitted two successful applications to State HCD for Homekey funding to acquire two hotels, Pacific Inn and Towneplace Suites in the City of Redwood City ("Redwood City") and were awarded Homekey funds to acquire both hotels. Pacific Inn, now known as "Pacific Shelter", is a service-enriched, 74-unit interim housing site, which serves San Mateo County residents experiencing homelessness who are highly vulnerable to COVID-19.

Towneplace Suites, now known as "Shores Landing," is a service-enriched 95-unit permanent affordable housing site for extremely-low income ("ELI") seniors who may be at risk of homelessness or previously experienced homelessness and at heightened risk for COVID-19 related complications.

On September 9, 2021, State HCD issued a second round or Round 2 NOFA for \$1.45 billion of Homekey funding, of which \$1.2 billion is derived from the State's direct allocation of the federal Coronavirus State Fiscal Recovery Fund, which was established by the American Rescue Plan Act of 2021 ("ARPA"). In addition, \$250 million is derived from the State's General Fund to supplement the acquisition of, and to provide initial operating subsidies for, Homekey sites. Working in collaboration, HSA, DOH, Real Property Services, the Project Development Unit, and the Department of Public Works submitted three successful applications to State HCD for Homekey funding in response to the Round 2 NOFA: (1) El Camino House, formerly Stone Villa Inn, converted from a motel to a service-enriched 44-unit non-congregate shelter in the City of San Mateo; (2) Casa Esperanza, formerly the Comfort Inn, converted from a motel to a service-enriched 51-unit permanent affordable housing site in Redwood City for extremely low-income households experiencing homelessness or at risk of homelessness; and (3) the Navigation Center, a 240-unit new construction non-congregate shelter in Redwood City with a comprehensive set of on-site services, including medical, dental, and substance abuse treatment, for people experiencing chronic homelessness, homelessness, and at risk of homelessness.

In anticipation of an expected Homekey 3 NOFA, the Department of Housing implemented a Request for Proposals for one or more non-profit co-applicants to collaborate with the County in an application for Homekey funds for the acquisition, rehabilitation and management of permanent affordable rental housing. Of the four respondents, Episcopal Community Services was selected to be a co-applicant with the County, based on prior experience with acquiring, rehabilitating and operating Homekey projects and decades of experience in providing comprehensive supportive services to people experiencing homelessness in San Francisco.

In anticipation of an expected Homekey 3 NOFA, taking into consideration the County's existing portfolio of non-congregate shelter sites and the concentration of prior Homekey awards in southern San Mateo County, the Department of Real Property Services launched a process of site search and investigation for hotels, motels, or other eligible housing types to rehabilitate for permanent affordable rental housing and concentrated their search in northern San Mateo County. The Department of Real Property Services has investigated and conducted negotiations on several sites in northern San Mateo County and has finalized a recommendation for purchase of the Property.

On March 24, 2023, State HCD issued a third round or Round 3 NOFA for \$736 million in Homekey funding, of which \$435 million is derived from ARPA and \$301 million is derived from the State's General Fund. The continuous Over the Counter application process will end on July 28, 2023 unless the funds are exhausted before that date. Due to the high likelihood of oversubscription, it is in the County's interest to submit an application as soon as possible. A new requirement of Round 3 Homekey funding is that the County shall name any co-applicant corporation in its Homekey 3.0 application and include a Memorandum of Understanding between the County and the co-applicant in its application for Homekey funding.

State HCD has requested that the Resolution authorizing the Homekey application authorize an application amount twice the expected award to allow for changes in the application after submission. Therefore, the Resolution requests authorization to apply for \$27,585,600 in Homekey funding, approximately twice the estimated amount of the Homekey capital award and operating subsidy award for the Property.

To allow for increases in local match corresponding to the possibility of the Homekey award being

higher than expected or rehabilitation expenses or operating expenses being higher than preliminarily estimated, the Resolution requests a capital match that is 1.5 times the expected minimum capital match and an operating subsidy match that is 1.5 times the expected minimum operating subsidy match.

**DISCUSSION:**

On March 24, 2023, State HCD announced that Homekey 3.0 applications must include a resolution adopted by the applicant's governing board and must identify any proposed co-applicant in the application, using a form resolution developed and distributed by State HCD, which authorizes the local entity to apply with a co-applicant for Homekey funding. Accordingly, staff is presenting to the Board a State HCD form resolution for the Property, which is included as Attachment A to the County resolution. The form resolution, which conforms to State HCD's specifications, has been appropriately modified to include information specific to the County, including the amount of Homekey funds requested for the specific application and the identified co-applicant. State HCD recommends identifying an authorized dollar amount in the local resolution that is double the anticipated award because award amounts are subject to change based on application review. Therefore, the County has requested this amount be authorized in your Board resolution per the NOFA recommendation.

Further, per Homekey Program requirements, applicants are required to demonstrate local matching contributions. These contributions are calculated by using a formula provided in the Round 3 NOFA. Based on these Homekey Program requirements as described in the Round 3 NOFA, the County, if awarded Homekey funding, will be expected to provide a one-time local match contribution for capital expenditures as well as a local match contribution for at least four years of operating subsidies and must represent that it will support the project's operating expenses for a minimum of five years.

The minimum County match for capital expenditures in order to maximize the Homekey award is based on the number of units in the Property. Similarly, the minimum match for operating subsidy by the County is based on the number of units in the Property and the need to provide an award for at least four years and guarantee operating funding for at least five years. To account for the possibility of changes from the amounts estimated in the Homekey application, the authorized amounts of capital match (from ARPA funds) and operating subsidy match (from the County Housing Voucher Program) are 1.5 times the estimated amount that will be required under Homekey guidelines. The County Housing Voucher Program provides a rental subsidy for the units for a term of 15 years. The funding for these vouchers has already been authorized by your Board for an appropriate project providing permanent affordable housing for people experiencing homelessness, which would be satisfied by an award to the Homekey Property.

In order to fulfill State HCD requirements for the Homekey 3.0 funding application, staff requests that your Board (1) authorize and adopt the State HCD form resolution with a co-applicant for the Property, and (2) authorize a one-time local match contribution for capital expenditures from ARPA funds and a local match contribution for operating expenses based on an award of County Housing Voucher rental subsidy for the Property's units.

Staff also requests the authorization to file a notice of exemption for the Homekey project under the California Environmental Quality Act (CEQA). The notice of exemption is needed because this Board action authorizes financial assistance to, or otherwise approves, a Homekey project meeting the conditions of an exemption from CEQA pursuant to the California Government Code Sections 65660-65662.

The staff also requests authorization to enter into a Memorandum of Understanding with the Special Purpose Entity controlled by Episcopal Community Services of San Francisco (ECS) as its sole member, for the purpose of describing the terms and conditions under which ECS and its affiliated entities shall acquire, rehabilitate, manage and provide supportive services for the residents of the Homekey property if the County receives the requested Homekey award and acquires the Property. This MOU is a condition of submitting a Homekey 3.0 application with a co-applicant.

The staff also requests authorization for the County Executive to enter into a purchase and sale agreement, option agreement, letter of intent, or other form of site control, including negotiation of a purchase price, with the owner of the Property selected for the Homekey 3.0 application. The County's obligation to acquire the Property under the site control agreement will be subject to an award of the requested Homekey 3.0 funding and other conditions that must be satisfied to meet Homekey Program Requirements. A Verification of Acceptance shall subsequently be required to be adopted by your Board.

**FISCAL IMPACT:**

In the event the County is awarded Homekey funds for the Property, the County will need to provide a local capital match of up to \$6,750,000 of ARPA funds and a local operating subsidy match of up to \$8,100,00 (total for five years) provided by the County Housing Voucher Program previously approved by your Board to support the development of permanent affordable rental housing at rents that are affordable for people experiencing homelessness. Beyond this minimum operating match requirement imposed by the Homekey Program, the current approved design of the County Housing Voucher Program provides for committing rental subsidies to the Property for a period of 15 years.