



## Legislation Text

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**File #:** 21-1083, **Version:** 1

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**TO:** Board of Supervisors  
**FROM:** Minh C. Tran, County Executive Officer  
**REPORT BY:** Jennifer Palmer, Director of Housing & Homeless Services  
**SUBJECT:** Project Homekey Round 2 Loan Request

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### **RECOMMENDATION**

#### **SUPPLEMENTAL ITEM**

Director of Housing and Homeless Services and County Executive Officer request discussion and direction regarding a proposal by Burbank Housing to develop supportive and affordable permanent housing at the Wine Valley Lodge facility for individuals experiencing or at-risk of experiencing homelessness that would require the following uses of American Rescue Plan Act Funds and Affordable Housing Trust Funds if a Project Homekey Round 2 Application is approved:

1. Approval of a loan to Burbank Housing in the amount of \$2 million from the State and Local Fiscal Recovery Fund - American Rescue Plan Act allocation to be used for capital costs of acquisition and development of Wine Valley Lodge through a Project Homekey Round 2 grant award;
2. Approval of a Fund Balance Assignment of \$2 million in State and Local Fiscal Recovery Fund (Fund 2460 - Subdivision 1020050), for the capital acquisition loan;
3. Approval of a loan to Burbank Housing of an amount not to exceed \$2 million from the Affordable Housing Trust Fund to serve as a guarantee for a Capitalized Operating Subsidy Reserve as required by the Project Homekey Round 2 grant application; and
4. Approval of a Fund Balance Assignment of \$2 million of Affordable Housing Trust Fund (Fund 2080 - Subdivision 2080010), for the operating subsidy loan guarantee.

### **EXECUTIVE SUMMARY**

Project Homekey ("Homekey") is a State program whose purpose is to expand the inventory of housing available for individuals at-risk of or experiencing homelessness. Homekey provides funds to state, regional, and local public entities to support the development of a broad range of housing types, and to convert commercial properties and other existing buildings to Permanent or Interim Housing. Project Homekey Round 2 ("Homekey R2") became available in September 2021 and makes available approximately \$1.45 billion in

grant funds available to support the development of such housing resources.

Burbank intends to submit an application for Homekey R2 funding for the long-term (55-year) lease of Wine Valley Lodge and conversion of the facility to permanent housing for very low income (30% Area Median Income or “AMI”) affordable housing. The City of Napa will be the co-applicant, and if approved by the State, all funds would go directly to Burbank from the State. Burbank is seeking Affordable Housing Impact Fee funding from the City of Napa and is requesting this additional funding from Napa County in order to best position the project to be competitive in the Bay Area allocation pool. Burbank has committed to seek other funding to eliminate or lessen the need for a loan requested from Napa County, but due to timing and the importance of this project to the community, is requesting the Board of Supervisors lend County support through both a direct loan and a guarantee against the Capitalized Operating Subsidy Reserve (“COSR”).

If a Homekey R2 application is approved for the project, staff will return to the Board of Supervisors at a future meeting to request appropriation for the approved funding sources and execute loan documents for the project.

### **FISCAL & STRATEGIC PLAN IMPACT**

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	This item is discretionary in that there is no mandate to submit a grant application for Homekey R2. The loan funds requested would be conditioned on a successful application/award for Homekey R2 by Burbank and the City of Napa (as a joint applicant). The project, if awarded Homekey R2 funding, will result in 55 deed restricted very-low-income affordable housing units for clients exiting homelessness.
Is the general fund affected?	No
Future fiscal impact:	The loans will be accounted for in future fiscal years based on the terms which will be negotiated upon award of Homekey R2 funds and other grants.
Consequences if not approved:	If this item is not approved, Burbank will not have the necessary local capital and operating subsidy match to best position their application for the regional competitive award of Homekey R2 funds.
County Strategic Plan pillar addressed:	Healthy, Safe, and Welcoming Place to Live, Work, and Visit

### **ENVIRONMENTAL IMPACT**

**ENVIRONMENTAL DETERMINATION:** The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

## **BACKGROUND AND DISCUSSION**

### **Homekey R2 Overview**

Homekey R2 makes available approximately \$1.45 billion in grant funds to Cities, Counties or other local public entities (like Housing Authorities) in California. The intent of Homekey R2 is for state, regional, and local public entities to utilize the funding for the development of a broad range of housing types, including 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 and in so doing expand the inventory of housing available for individuals at-risk of or experiencing homelessness.

The Homekey R2 Notice of Funding Availability (“NOFA”) was released on September 9, 2021 and the Homekey R2 Application became available the last week of September. Applications are accepted on an over-the-counter rolling basis until funds are exhausted or May 2, 2022, whichever comes first. The Bay Area funding set-aside is expected to be extremely competitive.

### **Local Homekey R2 Opportunity: Wine Valley Lodge**

Wine Valley Lodge is a 55-unit motel made up of 54 guest rooms and 1 managers unit. The County of Napa has continuously leased this site for pandemic-related Isolation & Quarantine Sheltering and Non-Congregate Prevention Sheltering since March of 2020. The owner of the Lodge has expressed an interest in a long-term lease of the property but is unwilling to outright sell it. Burbank has negotiated an MOU for a 55-year lease of the facility, to provide 54 units of very-low-income (30% AMI or below) housing for individuals exiting homelessness, and one unrestricted managers unit. All prospective tenants will be referred through the Napa City-County Continuum of Care Coordinated Entry System (CES). The plan for converting the existing property to permanent housing includes remodeling each individual room to become a studio unit, or single room occupancy (SRO) unit, by installing efficiency kitchens in each unit, creating ADA accessible units, having full-time, live-on-site facility management, and onsite supportive services.

### **Local Application Timing and Details**

The Bay Area Homekey R2 funding allocation is expected to be extremely competitive. In order to best position a local project for funding in this round, Burbank is working toward an application submission deadline of October 31, 2022. The City of Napa will be the co-applicant, and if approved by the State, all funds would go directly to Burbank from the State.

The project is likely to require approximately \$21.2 million to fund. This translates to a per-unit cost of \$400,000 per unit. For comparison, the per-unit cost for Heritage House units, a project similar in unit count to this one, is closer to \$625,000. Included in the proforma is a mandatory 5-year operating reserve.

The maximum amount of Homekey R2 funding a project can receive is calculated based using a baseline of \$150,000 per door, with additional funds available based upon a number of factors which include “bonus” and matching awards based on various performance targets (length of time from award to occupancy, early application submission, and additional funds if the project can show local-funding for the operating subsidy.)

Burbank is seeking to qualify for all of those bonus allocations.

The application is on track for submission by the end of this month, which is likely to lead to a notice of award in January. Construction is anticipated to complete within 8 months of award, and makes occupancy likely September 2022. There would be a period of time between when Burbank takes possession of the facility (January 2022) and when actual construction begins (April/May 2022) when the County would be able to continue IQ operations and/or Project Roomkey under contract with Burbank if still needed.

## **Request for Funding**

The total amount of funding Burbank requires for the conversion of Wine Valley Lodge to permanent housing, including a five year operating subsidy reserve, is \$21.2 million. Their Homekey R2 application will seek more than 50% of those funds from the State. In addition, Burbank has submitted an application to the City of Napa, and the Napa City Council will vote on a recommendation to commit Affordable Housing Impact Fee funds to the project at their 10/19/2021 meeting. They have also secured a Wells Fargo Accelerator Grant.

Burbank is requesting two commitments of funding from the County: The first is \$2 million from the State and Local Fiscal Recovery Fund - American Rescue Plan Act allocation to be used for capital costs of acquisition and development of Wine Valley Lodge through the Homekey R2 grant award to Napa County. The second is for up to \$2 million from the Affordable Housing Trust Fund to be used for a Capitalized Operating Subsidy Reserve (COSR) “local funding guarantee” as required by the Homekey R2 grant application.

The second request for the COSR guarantee is needed due to the timing of the Homekey R2 NOFA and the nature of the first-come-first-serve funding which demand a rapid turn-around on the application. The compressed timing does not allow Burbank to pursue formal commitments or grants from other possible funders, specifically healthcare partners with vested interest in the long-term health benefits of this project for their members. However, there are several known funding sources available or expected to be available in the coming months, including:

- CalAIM “ILOS (aka, Community Supports) Incentive Funds.” These funds will be available from the State through Partnership Health Plan (PHP). PHP will be working through their spending proposals and award process in the near future and will then announce and open their grant award opportunity.
- CMS “Home and Community-Based Services (HCBS) Funds.” At this time, these funds are partially approved by CMS and managed care plans (including PHP) are awaiting more details expected to be available in late November/early December.
- St. Joseph Health (“SJH”) “Community Partnership Funds.” Each year SJH allocates 10% of its net income (net unrealized gains and losses) to the SJH Community Partnership Fund. 75% of these contributions are used to support local hospital Care for the Poor programs. 17.5% is used to support SJH Community Partnership Fund (“SJH Fund”) grant initiatives, and the remainder goes to reserves. The SJH Fund has identified five priority areas for investment of its Community Benefit grant funds, the first of which is Housing, with the specific charge to: “work directly and in coordination with key community partners to develop sustainable, collective efforts to reduce homelessness and improve availability and accessibility of housing that is affordable for low income and other vulnerable population.”

Burbank is seeking a commitment of guarantee from the County for the COSR required in the Homekey R2 application for maximum funding, and in return commits to apply for COSR funding from the ILOS Incentive Fund, the HCBS Fund, and the SJH Fund before returning to the County for any balance amount still needed to meet the \$2 million threshold guarantee (see letter attached).

Today's item requests the Board of Supervisors receive a presentation on the proposed project and approve an Assignment of Fund Balance as detailed above for prospective loans to Burbank (1) in the amount of \$2 million for capital improvements and (2) in an amount not to exceed \$2 million for capitalized operating subsidy reserves. If the Homekey R2 grant application is approved, staff will return to the Board of Supervisors at a future meeting, following the notice of Homekey R2 award, to request appropriations from these funding sources and approval of the loans to Burbank for the project.

The actual amount of the proposed loan for the capitalized operating subsidy will reflect Napa County's recommended contribution to the capitalized operating subsidy, based on the status of additional/alternative grant funding awards for the operating subsidy that may have been obtained by Burbank by that time.