Memo

To: Mayor Bill Peake and City Council Members
   Ben Harvey, City Manager

From: Anastacia Wyatt, Sr. Housing Program Manager

CC: Alyson Hunter, Community Development Director

Attachment: Homekey Project (FAQs), Updated February 11, 2022

Project Homekey Program –

On January 19, 2022, City Council authorized an application to the CA Department of Housing and Community Development (HCD) for up to $15,000,000 for the conversion of the Monarch Resort 1111 Lighthouse Avenue into a Homekey project. The application was submitted to HCD on January 31, 2022 as directed by Council.

The attached FAQ’s and responses provide further detail on Project Homekey in response to questions that have arisen in response to the possibility of a Homekey project in the City of Pacific Grove.
The City of Pacific Grove submitted a grant application to the State of California to secure Homekey Round 2 funding to convert the Monarch Resort, located at 1111 Lighthouse Avenue, to a 50-room affordable housing apartment complex. If the project is awarded Homekey funding, the site would be purchased by developer Shangri-La Industries and the existing hotel rooms would be converted to apartment micro-units with kitchenettes. The target population for this affordable housing project would be extremely low-income residents with a household income of 30% or less of the area median income who have connections to the City of Pacific Grove. Property management staff would be living at the property, and supportive services would be provided on site by service provider Step Up. This project would be permanent affordable housing and not a homeless temporary shelter. Tenants would pay rent. This FAQs document has been developed to help share information about the project and answer community questions.

Within this document, you will find information on several key areas:

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SECTION 1: HOMEKEY PROJECT OVERVIEW

Q1. What is the State’s Homekey program?
In June 2020, the State announced Homekey as the next phase of a COVID-19 response to protect homeless Californians. The Homekey program provides an opportunity for state, regional, and local public entities to develop a broad range of permanent or interim housing for extremely low-income community members. To date, over $800 million in funding has been provided for 94 Homekey projects across California, resulting in over 6,000 units of affordable housing.

Due to its success, in September 2021, the State invited local jurisdictions to apply for Homekey Round 2 funding. The funding is available until May 2022 or until funds are exhausted, whichever comes first. Funds from this program must be used to provide affordable housing for individuals and families experiencing homelessness.

On January 19th, 2022, during its regularly scheduled public meeting, the Pacific Grove City Council voted unanimously to apply for a $15.0 million Homekey grant. The funding would be to purchase of the Monarch Resort, located at 1111 Lighthouse Ave., to convert the property from a hotel to approximately 49 apartment units of permanent affordable housing for those who meet the criteria of being extremely low-income, which includes most homeless individuals or those at risk of becoming homeless. One unit would be reserved as a manager’s unit.

The Homekey application was submitted to purchase the Monarch Resort. The owner was in purchase negotiations with Shangri-La Industries. However; once the owner saw the January 19th Council agenda that the property would be converted for a Homekey program the property owner no longer wanted to sell the property. There is currently no property identified. Should a new site be identified, City staff would return to Council to approve an updated or new application for funding, Council Resolution, Memorandum of Understanding (MOU) and Agreement to the MOU.

Q2. Why is the City applying for Homekey funds?
The Homekey program provides the City with one of the most significant funding opportunities available to date from the State to expand affordable housing and to help
address homelessness in Pacific Grove. Equity and opportunity in housing remains a top priority of the Pacific Grove City Council.

**Lack of Affordable Housing**

Since 2019, shelter and affordable housing resources have not kept pace with the need of people seeking them. Although the bi-annual Homeless Count was postponed in 2021, homelessness in the City of Pacific Grove has likely increased because of the continued insufficient shelter and housing resources, coupled with the overall impacts of the COVID-19 pandemic on income and employment.

Availability of affordable housing is a major issue. Since 2015, the City has built only 1 very-low income unit. This falls short of the city’s share of the regional need for affordable housing as determined by State and regional agencies (28 very-low affordable units for 2015–2023). Since affordable housing developments charge rents that are lower than the rents in market-rate developments, they typically cannot be built without a subsidy. When a project serves extremely low-income residents who earn 15% or less of the area median income, the subsidy is especially significant. Securing funding to provide this subsidy is one of the constraints to creating affordable housing serving residents at this income level, residents whose income may be constrained by disability or age, for example. The Homekey project is a significant new funding source that, if the City’s grant application is successful, would allow Pacific Grove to create more affordable housing for those with most limited incomes.

**Q3. What is the scope of a Homekey project?**

If a project receives Homekey funding, the site would be purchased by Shangri-La Industries and converted into permanent affordable housing. The existing rooms would be converted to apartment micro-units with kitchenettes. The target population for this affordable housing project would be extremely low-income residents earning 30% or less of the area median income (homeless, chronically homeless, and transitional age youth). Property management staff would be living at the property and supportive services would be provided on site by service provider Step Up. This project would be permanent housing, guaranteed to remain affordable for 55 years, and not a temporary shelter. All tenants living at the property would pay rent based on their income level, just like tenants in other affordable housing units.

**Q4. Would the change of use require a zoning change?**
It is important to note that the conversion of the site from a hotel to an affordable housing apartment project does not require a City zoning change, and no additional City Council meetings on this topic are planned.

**Q5. What is the expected timeline for the Homekey Project if State funding is awarded?**

While negotiations for the Monarch Resort were underway at the time of the application, those negotiations fell through. The City has not identified a new site for a Homekey project. A willing property owner is needed. The City is working with the state to determine application status since the original property negotiations fell through.

The following is a potential timeline should a site be identified:

January 19, 2022: Pacific Grove City Council Approves Homekey Submittal of Application
January 31, 2022: Homekey Grant Application Submitted to State
March 2022 (TBD): Public Outreach meeting at Community Center
February to May 2022: Search for a suitable hotel
March-April: Return to City Council for approval of a new MOU, Application and Resolution
August 2022 (TBD): Expected Notification of Funding from State
August to May 2023: Renovations
May 2023: First Residents Move-in should the City identify a site and if the project were to receive a successful award from the state.

**Q6. Why does Pacific Grove need a Homekey project?**

There are no permanent affordable housing units or shelter available in Pacific Grove to house those who currently seek assistance and shelter or who may currently live in vehicles because they have been forced out of the high-cost housing market. The only shelter on the Monterey Peninsula is in Seaside, Casa de Noche Buena, operated in a partnership by Community Human Services (CHS) and Gathering for Women (GFW). This shelter is specifically for women and families with children. There are no shelters on the Peninsula that serve single men. Shelters are temporary places for unsheltered people to stay while they work to transition to permanent housing. The Homekey project would
convert the existing hotel into a new apartment building where income-eligible residents would have stable and affordable permanent housing as well as on-site services if needed. People currently living in temporary housing, unsheltered and in cars, could potentially be applicants for the permanent housing opportunity the Homekey project would provide.

Q7. Is the Homekey project the same as a homeless shelter?
No. Homeless shelters are intended for people to have a safe place to stay off the street and out of the elements on a temporary basis. The proposed Homekey project would provide tenants with permanent affordable housing.

SECTION 2: SIMILAR HOMEKEY/AFFORDABLE HOUSING PROJECTS

Q8. Have similar projects in other cities proven successful?
Yes. Step Up, the City’s partner and service provider for the Homekey project, has a long track record of successful hotel conversion projects. Step Up’s first hotel conversion was in Santa Monica in 2009. Since then, Step Up has opened similar projects across Southern California and manages 21 projects across the United States.

Step Up projects have been reported as assets in other communities. These projects become fully integrated in the community, seamlessly transforming from hotels/motels to attractive apartment complexes. In 2013, a hotel conversion project, Step Up on Vine, opened in Hollywood near Vine St. and Hollywood Blvd. The project is located next to a preschool and one block from an elementary school. Both schools supported the project, and all have been operating for several years in mutual support.

The State’s Homekey program has demonstrated that converting hotels into permanent affordable housing has worked well across California. With Step Up, the City would be partnering with one of California’s foremost experts on hotel conversions.
Q9. Where is affordable housing already located in Pacific Grove?
The City’s only other affordable housing development is Vista Point Senior Housing. This housing is only available to seniors and is a 49-unit affordable housing development opened in May 2006. The housing was built on land owned by and leased from the City of Pacific Grove. The project is comprised of units below 60% AMI.

SECTION 3: HOMEKEY PROJECT FUNDING

Q10. How much money would the City be spending on the Homekey project?

None. The City would fund this with 100% grant funding through the state. The acquisition and rehabilitation of the Monarch Resort was valued at $15 million. The City is also eligible to apply for two or more years of operating funding that could potentially include an additional $764,400. In addition, the application may be eligible to receive an early application bonus valued at $500,000 and an expedited occupancy bonus, also valued at $500,000, for a total possible award of $16,264,400 million. The state may increase this amount and award as needed.

In the City’s Homekey application, the City must also identify funding for five years of operation. The City would determine other funding available through the Coalition of Homekey Project FAQs
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Homeless Services Providers and available PLHA funding through the City and County. As noted above, $764,400 of this amount would be provided by the State as part of the Homekey grant. Most of the rest of the funding would likely come from other federal, State, and County grants. The Homekey project would require minimal investment from the City compared to most affordable housing developments. The City provided $1,000,000 in 2006 toward the development of Vista Point.

Also, providing permanent affordable housing for the chronically homeless would likely result in savings in public funds expended on emergency health care services, maintenance and clean up services, public safety, etc.

**Q11. Can the City afford the Homekey project?**

*Yes.* This project is solely funded through state grant funding. A Homekey project would be the most cost-effective affordable housing project in Pacific Grove in many years due to the significant State funding available, the likelihood of additional outside funding, and the lower cost of acquiring and rehabilitating hotel rooms than building new units from the ground up.

**Q12. Would tenants of the Homekey project pay rent?**

*Yes.* In all affordable housing projects, residents are required to pay rent based on their income. For a Homekey development, residents would be required to pay rent that is no more than 30% of their income.

**Q13. Would the money the City spends on the Homekey project take away from other City projects and services?**

*No.* All funds allocated to the Homekey project would be funded through a state grant. The Homekey project would not require any contribution from the City’s General Fund.

**SECTION 4: HOMEKEY PROJECT TENANTS**

**Q14. How would tenants be selected for the Homekey project?**

The Homekey project is specifically designed to provide permanent housing for individuals who are considered chronically homeless, homeless, and transitional aged
youth. To apply for an apartment at the site, a potential tenant would have to earn 30% or less of the area median income. The City of Pacific Grove may place a preference for Pacific Grove residents to house the City’s homeless population first. This would be tracked within the County’s Homeless Management Information System (HMIS). It would be established in one of two ways: 1) when an individual completes a crisis or housing assessment; or 2) an individual discloses they were previously housed in, went to school in, or were born in Pacific Grove or are employed in one of those cities.

Q15. Would tenants be required to work?
Yes. A typical tenant would be earning 30% or less of the area median income. They could be working full-time or part-time, on social security or disability income (Federal Supplemental Security Income (SSI) for one person in 2022 is $841 a month), or not able to work due to health issues or age.

Q16. If a tenant is unemployed, how would they be expected to pay rent, purchase food, and pay for basic needs?
Tenants would likely have access to a variety of income sources. They may be collecting General Assistance (GA) through Monterey County Social Services. Older adults may be receiving social security. Some may have veteran’s benefits, be on unemployment, qualify for Cal Fresh (food stamps), and/or collect disability payments through social security.

Q17. What supportive services would be offered to tenants, and why are they important?
Supportive services are a critical component of this project. Tenants who are formerly homeless need assistance in retaining their housing and becoming re-integrated back into the community. The goal is to avoid a "revolving door" where they return to homelessness. Services are provided on site to those who need them and are offered at no cost. Services are geared toward assisting each tenant individually in improving their independent living skills to meet their life goals, such as furthering their education or obtaining employment, and to support their ability to retain housing. Service coordinators would meet with each tenant to help them develop an individualized service plan informed by their goals. These plans guide service delivery support referrals and coordination when physical health care or mental health services are required. Tenants are encouraged to participate and have a voice in the tenant community to become good neighbors. Step Up, the service provider for the Homekey project,
over 35 years of experience in providing supportive services to formerly homeless individuals. Step Up currently operates with a retention rate of 97% of individuals remaining housed one year after moving into housing.

Q18. Will alcohol or drug use be a factor for selection? Would a person who uses drugs be selected as a tenant?
In screening applicants, Step Up employs a harm reduction model where use of alcohol or drugs would not automatically disqualify someone from tenant selection. Services to support recovery would be offered and encouraged for those who have a substance use problem.

The site would follow a “Housing First” approach. This approach views housing as the foundation for life improvement and enables access to permanent housing to homeless persons without prerequisites or conditions beyond those of a typical renter.

This approach prioritizes permanent housing for people experiencing homelessness, thus ending their homelessness and serving as a platform from which they can pursue personal goals and improve their quality of life. “Housing First” is guided by the belief that people need basic necessities like food and a place to live before attending to anything less critical, such as getting a job, budgeting properly, or addressing substance use issues. Additionally, the “Housing First” approach is based on the theory that a person’s choice is valuable in housing selection and supportive service participation and that exercising that choice is likely to make that person more successful in remaining housed and improving their life.

Q19. Would a person suffering from mental illness be selected as a tenant?
Yes. Support services would be provided to help participants seek appropriate medical care and interventions. With appropriate medication (when needed) and a wide range of services tailored to meet their needs, most people who live with mental health challenges can significantly reduce the negative impacts of their condition and find a satisfying measure of achievement, independence, and well-being. Additionally, there is substantial evidence that once an individual with mental illness is living in permanent housing, many of their symptoms improve or may be mitigated. The stress and fear associated with being unsheltered can exacerbate otherwise manageable conditions.
Homeless persons with mental health issues would be accepted. Mental illness cuts across all socio-economic, ethnic, and cultural boundaries. 21% of adults in this country (1 in 5) experience mental illness at some point in their life.

SECTION 5: COMMUNITY SAFETY

Q20. Did City staff connect with the Pacific Grove Police Department as part of internal outreach for a future Homekey project?
Yes. The City and Step Up met with Police Chief Madalone and Commander Santos to go over questions and ensure the Homekey Project would provide the mental health and crisis resources on-site and have a partnership to ensure safety and that the project integrates well as all other housing in the City does.

Q21. What would happen if a tenant became violent or violated property rules?
Step Up would require all residents at the property to follow good neighbor rules. Violence would not be permitted, and a tenant could be evicted should violence occur. The on-site property management and support staff would work closely with the City of Pacific Grove Police Department if support from law enforcement was needed. The Police Department is invested in the success of programs that help homeless community members and would establish and maintain a relationship with the on-site staff. This has proven to work with other recent projects in communities where Step Up operates such as Santa Monica and Salinas.

Tenants living at the Homekey site would be housed, receiving the supportive services they need, and focusing on their own aspects of daily living. There would be no reason for people from outside the residential development to congregate or gather on the property. The property would look like other apartment complexes within the City of Pacific Grove.
Q22. Would the exterior of the Homekey project be maintained?

Yes. The on-site property management staff would ensure the property is well maintained. Staff would not allow debris to pile up or items to be brought onsite without having a purpose and proper storage.

SECTION 6: NEXT STEPS

Q23. Has the City already submitted its Homekey application to the State?

Yes. While the City has submitted the application on January 31, 2022, the City would need to identify a project site. The application was submitted soon after the City Council’s decision to move forward with the project because applications submitted prior to January 31, 2022 are eligible for bonus funding.

Q24. What are the next steps after the submission of the application?

The funding award announcement from the State is expected in March 2022. However, site control to the original hotel identified, the Monarch Inn, was not achieved. A new location is needed. However, if awarded, construction of the project would begin as soon as possible. If the State requires the City to complete a new application for May, the City can continue to search for a suitable hotel.

Q25. Is any additional community outreach planned?

The City will have community engagement on this program and is looking to host an in-person meeting in March. Step Up values integrating into each community where permanent supportive housing projects are being developed. Step Up would provide informational flyers which would be shared with neighbors in the vicinity of the Homekey project and available to others in the broader community. Step Up staff would be available to answer questions about the project during engagement with local neighbors. Step Up’s history of successful projects and positive relationships with neighbors in the community supports the notion that the Homekey project would enhance the neighborhood and become transparent as the tenants stabilize.
Q26. How do I stay up to date on the Homekey project and other affordable housing programs in Pacific Grove?

For the latest information about Pacific Grove’s Homekey project and other Housing topics, visit:
https://www.cityofpacificgrove.org/our_city/departments/community_development/housing/index.php

You may also email housing@cityofpacificgrove.org for any questions regarding Pacific Grove’s Homekey Project.