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California's Homekey Program: Unlocking Housing Opportunities for People Experiencing Homelessness

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Introduction

In July of 2020, in the midst of the COVID-19 pandemic, California launched its Homekey initiative, allocating $800 million in funding to allow local public agencies to buy underused properties, mostly hotels and motels, and convert them into housing for people experiencing or at risk of homelessness.[1] By December 2020, just six months later, cities and counties across the state had acquired 94 properties, greatly expanding the state's supply of long-term, deeply affordable housing units. Building on the program's initial success, Governor Newsom signed legislation in July of 2021 that committed an additional $2.75 billion to Homekey and authorized an additional $9.2 billion in other programs directed at tackling the state's homelessness crisis.[2]

It is hard to overstate Homekey's potential impact: the scale of funding and the speed at which the program aims to bring new interim and permanent supportive housing (PSH) units online are both unprecedented. In this report, we present research analyzing the lessons learned from Homekey 1.0. We draw on analysis of application and expenditure data on Homekey projects statewide, case studies of seven local approaches to Homekey implementation, as well as 31 interviews with 46 practitioners working on Homekey sites across the state. The report seeks to highlight both emerging best practices and ongoing challenges to inform the implementation of future rounds of Homekey and ensure the program's success.

We find that Homekey is making significant progress on providing housing for the state's unsheltered homeless population, and that it serves as an innovative model for how to bring units online faster and more cost-effectively than has traditionally been the case for affordable housing. While some of this is attributable to its focus on adaptive reuse, the initiative's key innovations relate to the structure and process for financing, as well as the regulatory exceptions included in the law. Homekey's investments eclipse other sources of capital funding for housing directed at people experiencing homelessness, and importantly, Homekey's grants for acquisition are an impactful way to deploy state funds. Not only does this approach reduce the complexity and costs of providing new affordable housing, research also suggests that communities that make more investments in building PSH show steeper declines in chronic homelessness over time.[3]

> "Homekey is a powerful model—it's a revolutionary approach compared to the usual programs. There's this sense of urgency throughout the entire process from both the HCD and applicant sides, about we need to get this done and get it done now. For Homekey 1.0 that broke down so many barriers, from how quickly we learned about the program to how quickly we had the money in our hands to start the work."
>
> Stephen Pelz, Kern County Housing Authority

Homekey's implementation has also galvanized regulatory breakthroughs and new partnerships. The California Environmental Quality Act (CEQA) statutory exemption for Homekey projects—as well as other regulatory streamlining provisions—provides a promising model for shortening affordable housing development timelines. In addition, the efforts of California's Department of Housing and Community Development (HCD)—as well as county and city governments, public housing authorities (PHAs), and local nonprofits—have demonstrated the power of government to collaborate and stand up a program that meets the severity of the homelessness crisis with meaningful resources.

For all of its strengths, however, Homekey also faces challenges related to the complex reality of converting and operating PSH in high-cost markets and the high levels of need among individuals experiencing homelessness. First and foremost, the lack of operating subsidies to help pay for the long-term upkeep of the buildings and resident services threatens to undermine the viability of Homekey properties to serve as high-quality homes over time. A majority of Homekey 1.0 projects will also require additional funds for conversion, but the ability of public agencies to supplement Homekey dollars with local resources varies significantly across the state.[4] In addition, as the real estate market shifts in response to changing pandemic and market circumstances, it is not clear whether jurisdictions will be able to continue to acquire suitable sites at lower costs. Finally, effectively serving people who have experienced homelessness—especially those with significant health issues and accumulated trauma—requires more resources and trained staff than currently exist in the system.

The report proceeds as follows. In the next section, we provide background information on the Homekey program, its rules and regulations, and describe the diversity of approaches local governments have taken to effectively deploy Homekey funding to address homelessness in their local communities. We then turn to the findings from the interviews and data analysis, highlighting emerging approaches, lessons learned, and ongoing challenges. In the final section of the report, we present recommendations for how to strengthen the Homekey program and its implementation.

Background

The COVID-19 pandemic has both exposed and deepened the vulnerability of people experiencing homelessness in California. These individuals were at much higher risk for the transmission of COVID-19, as well as of hospitalization and fatality from the disease.[5] The public health crisis led numerous states and localities to prioritize moving unhoused people off the street, using federal relief funds to create temporary non-congregate shelters (e.g., by leasing hotel and motel rooms emptied by the pandemic) as well as acquiring and converting hotels into affordable housing.[6]

Within this broader landscape, California has emerged as a national leader in providing funds to convert hotels, motels, and other buildings into PSH. The state mobilized quickly to launch Project Roomkey, which deployed Federal Emergency Management Agency (FEMA) funds to lease 15,000 hotel and motel rooms for temporary shelter beds.[7] Recognizing that there was also an opportunity to acquire properties more permanently, the state launched Homekey in July of 2020. In its initial round, Homekey allocated $550 million in federal Coronavirus Relief

Funds (CRF)[8] to support the conversion of hotels, motels, and/or other buildings into interim and PSH.[9] The state also provided $50 million in state general funds to the program. In October, the legislature approved Governor Newsom's request to allocate an additional $200 million in CRF funds to the program, bringing the total state support for the first round of Homekey to $800 million. Kaiser Permanente, Blue Cross/Blue Shield of California, and the Chan Zuckerberg Initiative contributed an additional $46 million in philanthropic support.

Homekey funds were initially allocated among eight established regional planning areas according to the number of unhoused individuals (based on the 2019 Point-in-Time counts of homelessness) and the number of extremely low-income households that are severely rent-burdened in each area. The program required that project applicants be local public entities, including cities, counties, PHAs, or federally-recognized tribal governments. Public entities were encouraged to partner with affordable housing developers and service providers.

The guidelines for the Homekey program have evolved over time—especially between the first round Notice of Funding Opportunity (NOFA)[10] and the second[11] (Table 1)—but the main purpose of the initiative is to provide grant capital to help public entities purchase underutilized buildings and convert them into housing for people experiencing or at risk of homelessness. Although hotel and motel conversions have received the most attention, Homekey also allows recipients to purchase other types of properties that could be converted into housing, such as apartments, single-family homes, manufactured housing, or other commercial buildings.[12] Homekey 1.0 allowed for different uses of the purchased properties: PSH, interim housing with a plan to convert into PSH in the future, or interim housing with a clear strategy for transitioning residents to PSH over time.[13] Homekey prioritizes investments in PSH due to the substantial body of evidence that PSH is a cost-effective approach to addressing chronic homelessness and that it leads to better outcomes for residents.[14] PSH differs from other affordable housing in that the units are targeted to people experiencing chronic homelessness, often prioritizing those with the greatest need as measured by a client assessment tool (like the VI-SPDAT[15]) and referred through the regional Coordinated Entry System (CES). Properties with PSH units also provide residents with ongoing, voluntary supportive services, such as case management, mental health and substance abuse counseling, skills training and employment placement, and community-building activities.

Homekey also includes provisions that facilitate project approvals. Homekey projects receiving CRF funds that are deemed to conform with local planning or zoning code are not subject to discretionary reviews or approvals. This provision allowed projects funded under Homekey to proceed "as of right" without further local approvals. Homekey projects could also claim to be exempt from CEQA's statutory requirements, reducing administrative burdens.[16] In addition to land use streamlining, the pandemic led to a relaxing of other federal regulatory requirements,[17] which also helped to facilitate the speed at which Homekey 1.0 funds were deployed.

Across the board, interviewees praised HCD's staff for their implementation of the program as well as their responsiveness, flexibility, and "problem-solving"

Table 1. Comparison of Major Differences between Homekey 1.0 and 2.0

Item	Homekey 1.0 NOFA	Homekey 2.0 NOFA
Capital expenditure deadline	Capital funds expended by January 1, 2021 (approximately 6 months after award date).	Capital funds must be expended within 8 months of the award date.
Maximum per door costs[18]	$200,000/door. Only the first $100,000/door was granted without a match requirement. Beyond $100,000/door, a local match was required.	**Baseline (does not require a local match):** $150,000/door for studios/1-bedrooms $175,000/door for 2-bedrooms $200,000/door for 3+-bedrooms **Baseline amounts for sub-populations:** $200,000/door serving individuals experiencing chronic homelessness $175,000/door serving individuals experiencing homelessness or at-risk youth Applicants may leverage a 1:1 local match to provide up to $100,000 in additional funds per door.
Operating subsidy	Homekey operating award was for the first 24 months and cannot exceed $1,000 per month per unit. Recipients had to demonstrate five-year commitment to providing the operating subsidy.	Homekey subsidies are limited to $1,400 per month per unit for those dedicated to people experiencing chronic homelessness or homeless/at-risk youth or $1,000 per month per unit for all other units. Duration tied to applicant's matching funds; HCD offers two to three years of funds depending on applicant's match.
Operating expenditure deadline	June 30, 2022	June 30, 2026

attitude. Respondents acknowledged that some challenges were due to the fact that "we were building the plane while flying it." Others felt that some Homekey challenges were pandemic specific—for example, not being able to do site visits due to COVID lockdowns or difficulties procuring materials (e.g., kitchen cabinets) due to supply chain disruptions—and would be less of a problem during future rounds of the program. Overall, despite ongoing challenges at some sites, respondents characterized Homekey as transformative and pointed to its potential to make significant inroads into addressing unsheltered homelessness in the state.

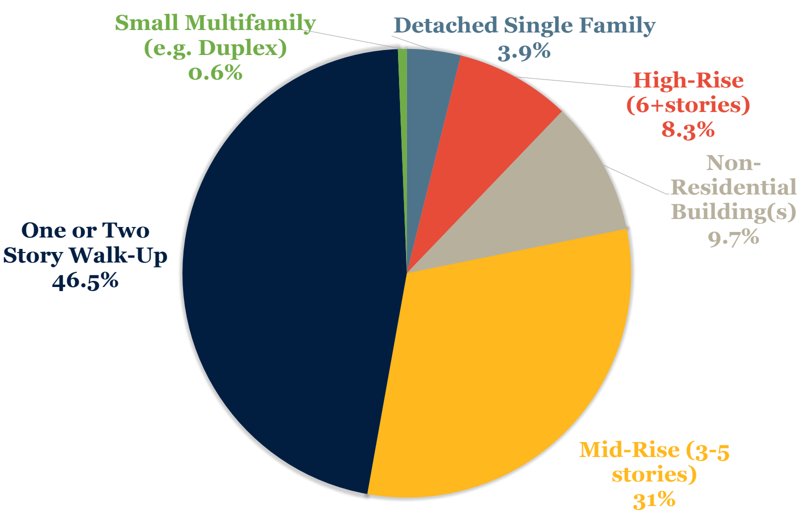
Findings

One of the strengths of the Homekey program is that it allowed local jurisdictions to develop housing strategies that best fit the needs of their homeless populations, available resources, and market conditions.

Although Homekey is best known for its conversion of hotels and motels to PSH, projects funded by the program span a wide variety of approaches. In Homekey 1.0, HCD funded 94 projects, for a total of just over 6,000 rooms. Projects ranged in size from an eight-unit cabin-style property in Big Bear Lake (San Bernardino County) to the 232-unit Granada Hotel in San Francisco. The majority of rooms (78 percent) were in low- or mid-rise motels and hotels, such as the property that was acquired by the County of Los Angeles in the City of Compton (Figure 1).

Approaches to deploying Homekey funds varied substantially across communities, and included both a mix of interim and PSH solutions (Figure 2). In Los Angeles, the scale of unsheltered homelessness in the region and the need to dramatically add supply led both the County of Los Angeles and the Housing Authority of the City of Los Angeles (HACLA) to take advantage of the funding opportunity and acquire as many properties as possible. All told, the two public agencies acquired a total of 25 hotels and motels, as well as a multi-family apartment building, adding over 1,600 rooms to their inventory. The cities of Long Beach and El Monte also acquired their own Homekey properties. The majority of sites in Los Angeles city and county are currently operating as interim housing, although most have plans to become PSH over time (see Homekey in Los Angeles case study on page 29). In Paso Robles, the Housing Authority of the City of San Luis Obispo purchased a 114-room Motel 6, and is operating both PSH and an emergency shelter on-site to meet the continuum of housing needs in the county (see Homekey in Paso Robles case study on page 32). In Oakland, Bay Area Community Services (BACS)—a large, nonprofit service provider—bought 15 single-family homes using Homekey funds. Building on their existing successful model of shared housing, these homes are providing 100 rooms for people experiencing homelessness at a cost of just over $100,000 per room (see Project Reclamation in Oakland case study on page 34).

Figure 1: Composition of Homekey 1.0 Projects and Example of Two Story Walk-Up Motel



Source: Terner analysis of Homekey application data for 94 projects.

Photo Credit: Los Angeles County

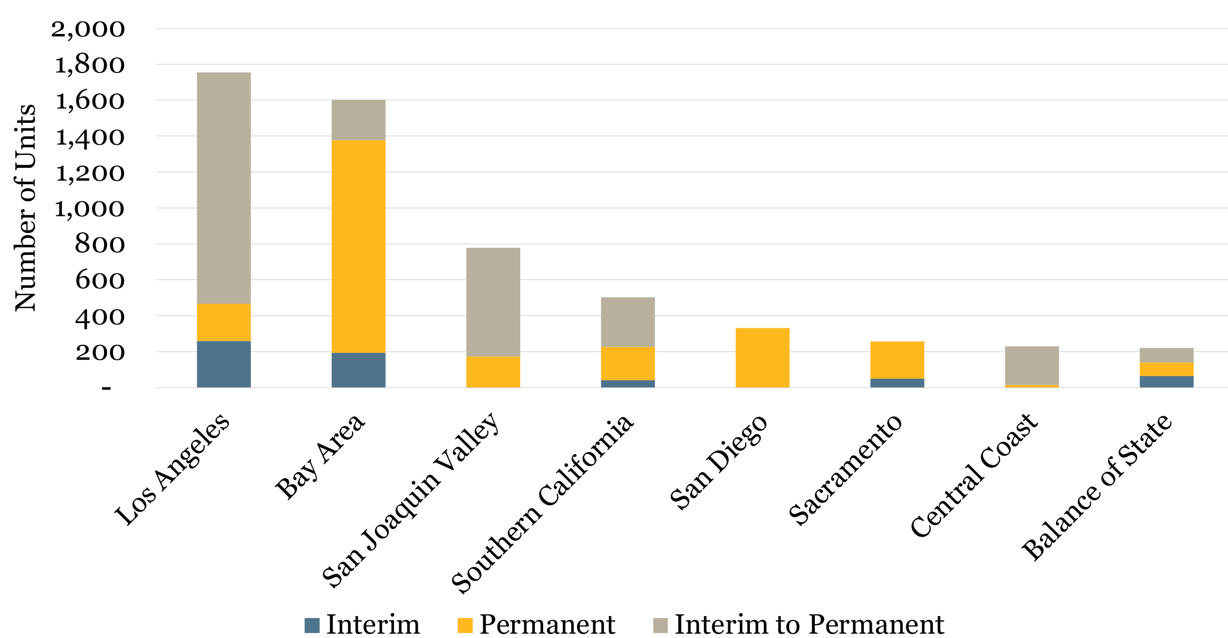
Homekey 1.0 funding added meaningfully to the supply of housing across the state.

California has led the nation in dedicating both federal and state funds to support the use of conversions for rapidly expanding the supply of housing. Homekey 1.0 allocated approximately $800 million in less than a six-month timeframe. This funding alone added more than 2,300 units of PSH in less than six months, 2,500 units operating as interim housing and undergoing plans for conversion, and another 1,000 units intended to serve as interim housing for the foreseeable future. With the announcement of two additional rounds of Homekey in FY 2021–2022 and FY 2022–2023—as well as expanded resources for the Homeless Housing, Assistance and Prevention (HHAP) program—California is committing unprecedented capital resources to the creation of new housing for people experiencing or at risk of homelessness.

Interviewees repeatedly highlighted that Homekey was a "game changer," and that the state was finally responding to the homelessness crisis with the resources and political will it deserves. Elizabeth Ben-Ishai, a principal analyst with the Los Angeles County Homeless Initiative, echoed many others, saying "we were in a crisis before the pandemic. It's unfortunate that we needed this crisis-on-a-crisis to really move the needle. But I have to give credit to the state for seizing the moment and ultimately spurring more housing across the state."[19]

In Figure 3, we compare the number of Homekey 1.0 units (interim and converted) to the number of PSH units that were added in that region between 2017 and 2020. In every region, Homekey 1.0 will boost the number of units substantially, supporting other efforts to expand the supply of PSH. But especially in places like the San Joaquin Valley, Sacramento, and California's coastal and rural areas—

Figure 2: Homekey Acquisitions by Region and Housing Type



Source: Terner analysis of Homekey application and expenditure data. Application data, N=94. Expenditure reports, N=54.

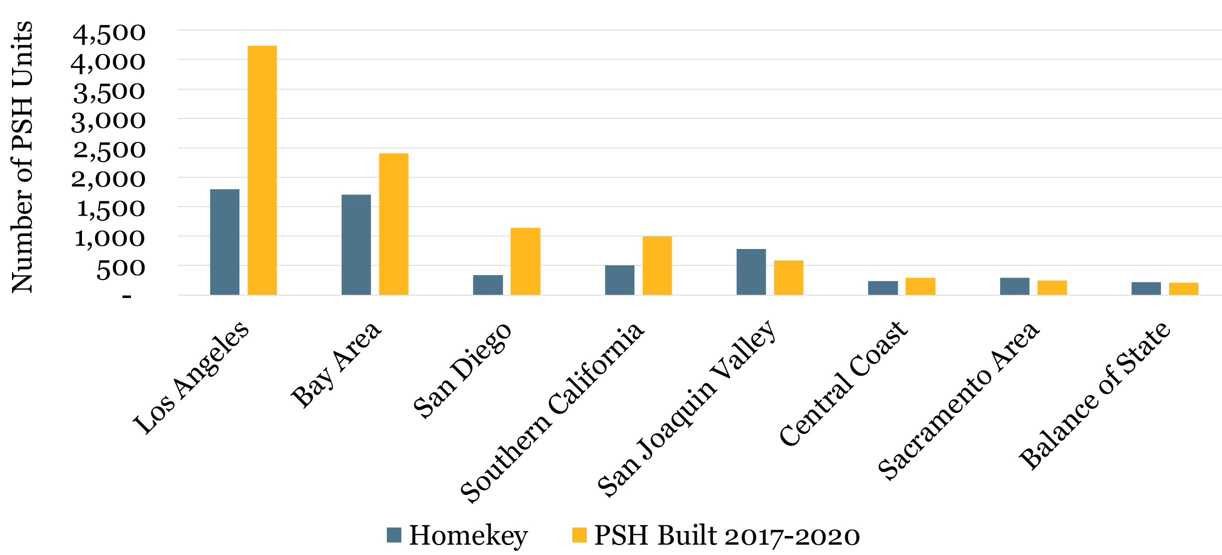
> "Homekey shows we can have big goals and we can move fast.It signals to folks, 'You're not going to have to live outdoors.' Homekey starts from the premise that we can solve homelessness with urgency, resources, collaboration, and political will."
>
> Nevada Merriman, Midpen Housing

which all tend to have less local funding for affordable housing and PSH—the program significantly expanded housing for people experiencing homelessness on a much faster time frame than would have occurred in its absence.

One of Homekey's strengths is that it provides grant funding for capital acquisition, in some cases reducing or eliminating the need to put together a complicated set of funding streams to bring new units of PSH online. Analysis of Low-Income Housing Tax Credit (LIHTC) data for California shows that the average PSH development built between 2010 and 2019 relied on an average of 6.3 sources of funding, each with their own documentation standards and regulations.[20] The time it takes to put together the financing for PSH, in addition to the time needed to procure land and entitlements and build new units, means that it can often take three to five years or longer to move from a proposed PSH project to occupancy.

Homekey thus provides a much needed resource for adding to the supply of deeply affordable housing, and on a quicker timeline. In the first round, the program provided the capital for acquisitions in a one-time grant, and made the funds available to deploy immediately. For 40 percent of Homekey 1.0 properties, this meant that the entire project—from acquisitions to rehab to permanent occupancy—was completed in under six months.

Figure 3: Scale of Homekey Acquisitions in Comparison to Recent PSH Construction, by Region



Source: Terner analysis of Homekey application data and U.S. Department of Housing and Urban Development Housing Inventory Count. Note: The HUD PSH unit count includes units classified as "other" supportive housing.

Homekey's grant structure also contributes to lower development costs. Several respondents noted that for properties that didn't require substantial renovation, Homekey reduced the "soft costs" that are involved with affordable housing development. Stephen Pelz, Executive Director of the Kern County Housing Authority, said "The fact that Homekey provides the money up front is critical. It saves a ton of money on the back end. You're not having to pay construction loan interest costs, bank fees, legal fees, all the transactional costs that are involved with traditional affordable housing. If you're doing a project that is just Homekey, or just Homekey and local funds, and doesn't have other tax credits or traditional affordable housing resources, it's much cheaper than doing it the traditional route."[21]

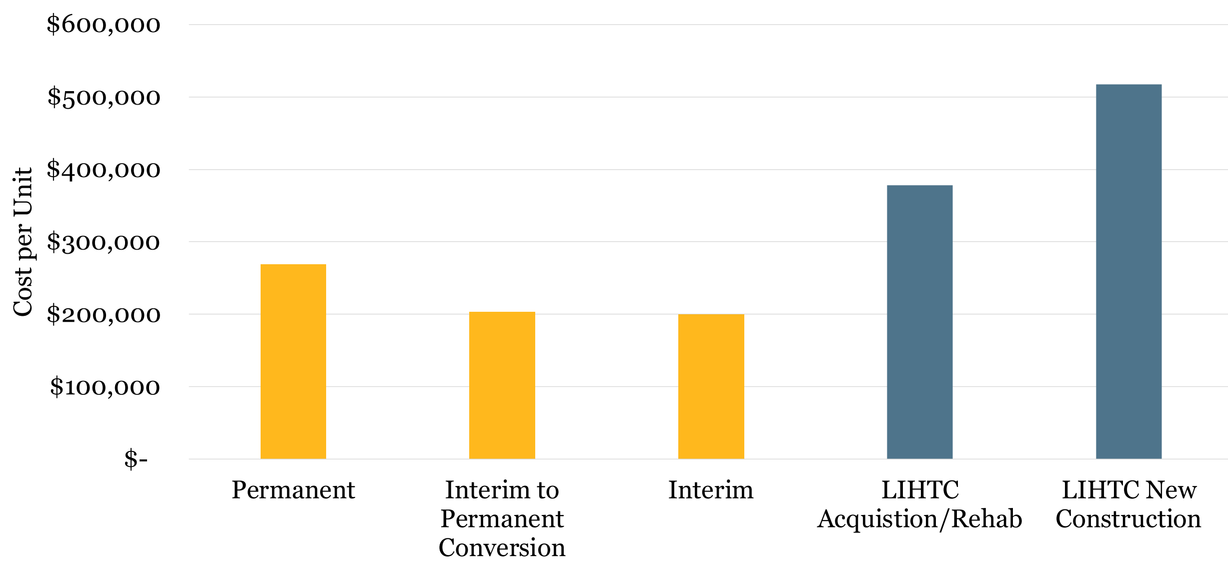
Early cost figures for Homekey suggest that the program did lead to cost savings. For Homekey sites that are already operating as PSH, total development costs per unit averaged $270,000, lower than the average $378,000 per unit for acquisition/rehab projects funded by the LIHTC program, and substantially lower than new construction (Figure 4). Costs for sites still operating as interim housing were lower, on average costing around $200,000 per unit to acquire and do sufficient upgrades to allow for occupancy. For properties that are currently operating as interim housing, however, the majority will need additional investment and renovation, so these average cost figures are likely to be an underestimate of the total development costs for transitioning Homekey properties to PSH units under the program.

"All of us, we've never seen anything go from an application to putting people in housing within just a few months time. ... that's just unheard of for a state program."

Scott Smith, Housing Authority of San Luis Obispo

One underappreciated aspect of Homekey is that even if some of the buildings proved to be more expensive to redevelop over the long term, Homekey provided an opportunity for public agencies to acquire valuable land. In Fresno, for example, the Housing Authority saw Homekey as an opportunity to acquire sites that they had long wanted to purchase as part of a larger, place-based redevelopment strategy (see Motel Drive in Fresno case study on page 36). Michael Duarte, Chief Real Estate Officer for the Fresno Housing Authority, explained that "In the end, it's as much about the land as it is about the structure on it. We need to control as much land as possible to expand the supply of affordable housing over the long-term."[22]

Figure 4: Homekey Cost Comparison by Project Status



Source: Terner analysis of Homekey application and expenditure data, 2019 Low Income Housing Tax Credit awards for acquisition/rehab projects.

Homekey's regulatory streamlining and ambitious expenditure deadlines were key to the program's success at getting people housed quickly.

The urgency of the pandemic—and the threat to public health—increased political will to find housing for those experiencing homelessness. Respondents noted that the state's by-right development language gave city councils as well as other public agencies the confidence to proceed with projects even in the face of neighborhood opposition. Other respondents noted that even without opposition, the regulatory relief and CEQA exemption allowed them to move more quickly, reducing the need for multiple city council meetings and staff time to undertake time-consuming paperwork. Shola Olatoye, Director of the Oakland Housing and Community Development Department, noted that "The key ingredient to Homekey's ability to bring units online quickly was its regulatory flexibility. The ability to forgo some local planning steps was critical."[23]

Homekey's funding and occupancy deadlines also helped some operators overcome drawn-out deliberations that can slow or even prevent housing development. Del Norte County's Director of Health and Human Services Heather Snow shared that Homekey helped to galvanize local action: "Our county had been talking about doing No Place Like Home for years, but we were never going to agree on a location. Homekey pushed us to do something about it. The availability and the urgency of this funding, and the quick turnaround is what allowed it to be successful."[24]

However, some projects did face resistance from the community, and there appears to be growing opposition to additional Homekey 2.0 sites in some jurisdictions. By forgoing typical entitlement steps, Homekey highlights an ongoing tension between the need for community input—which is often facilitated by CEQA and other planning processes—and the fact that such processes are often used to stall or prevent new affordable housing from being built. Still, respondents across the

> "There were concerns about tax losses related to losing a motel. I had to get some facts out there and remind them, we've spent hundreds of thousands of dollars on homelessness. I put a chart together by year of how much money we've spent, and how you have to look at the big picture. Yes, you might be losing some transient occupancy tax, but you're saving money and helping to solve homelessness."
>
> Heather Snow, Del Norte Health and Human Services Department

board noted that given the need to address homelessness in their communities, they felt that Homekey's streamlining, flexibility, and accelerated timelines were critical innovations that should be applied to more affordable housing programs.

Respondents were careful to distinguish the difference between streamlining regulations and the importance of community engagement work, however. The speed at which Homekey 1.0 was implemented—coupled with the pandemic—made it hard to do effective community engagement prior to occupancy. Nevada Merriman, Policy Director for Midpen Housing, said that for subsequent rounds of Homekey, a key priority will be to take the time to build neighborhood support: "A critical part of doing projects like this is showing the community that you're going to be a good partner, and that when problems happen—which they will—you're going to respond effectively. Having time to develop that trust is important."[25]

Homekey encouraged an "all hands on deck" approach to getting projects off the ground, which helped to spur new partnerships that are adding capacity to California's homelessness response system.

Homekey's structure—and its requirement that the primary applicant be a public entity—resulted in a wide variety of organizations participating in the program, including some that had not historically engaged with housing production. For example, Merriman shared that Homekey brought San Mateo County to the table in a new way: "Homekey is the first program where I have seen the county manager take ownership and county leadership really step up and provide the resources and drive to obtain the awards. They've been engaged every step of the way; it's very unusual for counties to be this involved in housing projects."[26]

Several interviewees highlighted that although they faced several barriers to launching such an intensive project during the pandemic, they now have stronger relationships with local jurisdictions. They are better positioned to replicate the Homekey model as well as initiate other affordable housing developments moving forward. Fred Sheil, Administrator for Stocktonians Taking Action to Neutralize Drugs (STAND), also noted the important role that stakeholders in the health care system played in deploying Homekey: "I have to give credit to Whole Person Care and the other health care agencies that have been involved in this, and the shelters, because everyone has worked very well together. I don't know if it was COVID that has caused these organizations to get out of their silos and start working together, but it worked."[27]

Homekey operators highlighted the importance of collaborative relationships that brought organizations with different strengths to the table. Ken Trigueiro, CEO & President of People's Self-Help Housing Corporation, noted that "public agencies don't always have the capacity, or the inclination, to put projects and development applications together. But we do. We brought everyone together and helped the other organizations 'speak HCD language' to get the project done."[28] In Santa Rosa, Burbank Housing, an affordable housing developer with significant experience in property development, is working with the Kashia Band of Pomo Indians to build their capacity to do real estate development and manage their Homekey project long-term. The Kashia tribe and Burbank Housing had established a relationship on an earlier project, but the addition of Homekey resources allowed for an expansion of the tribe's involvement in real estate development, and helped to give it a stronger political voice and engagement with state policy-makers.[29]

The lesson that many interviewees shared is that it is important to have the right partners at the table from the beginning, and to be clear about roles and responsibilities so that all parties know what is expected of them and can manage their risk. Most counties don't own or manage residential buildings, so lines of authority weren't always clear, creating disconnects between decisions that needed to be made and who was responsible for making them. In other places, the lead agency wasn't ideally suited to be managing properties. For example, Snow noted that "I'm not a real estate person, I'm a social worker… I'm not a property manager, and I didn't want our department to be in that business. I didn't want that to become our job, to be a landlord. I wanted to focus on services and relationships with the clients."[30]

A number of respondents also raised the challenge of proprietorship and how best to operate the properties over the long-term. In Oakland, for example, the City took advantage of Homekey "in the moment," but Christina Mun, Deputy Director of the Oakland Housing and Community Development Department, acknowledged that "the city is not meant to be a property owner and manager. When we brought Satellite Affordable Housing Associates (SAHA) on board to run Clifton, a 63-unit dormitory in Rockridge acquired through Homekey, it took a lot of negotiation to get them comfortable with the project. The city will rely on nonprofit partners from the beginning in the future."[31] Susan Friedland, CEO of SAHA, concurred that it is important to iron out the respective roles and responsibilities to manage risk: "We needed to think through, how much organizational risk are we willing to take on for the mission? If we're going to be responsible for the long-term operations, and we're going to work in partnership with the shelter on the ground floor, we needed to get into the details of things like insurance to manage our risk."[32] In Homekey 2.0, both Los Angeles County and the City of Oakland are soliciting owner-operators as part of the RFP process, ensuring that the long-term stewards of these properties are at the table from the beginning.

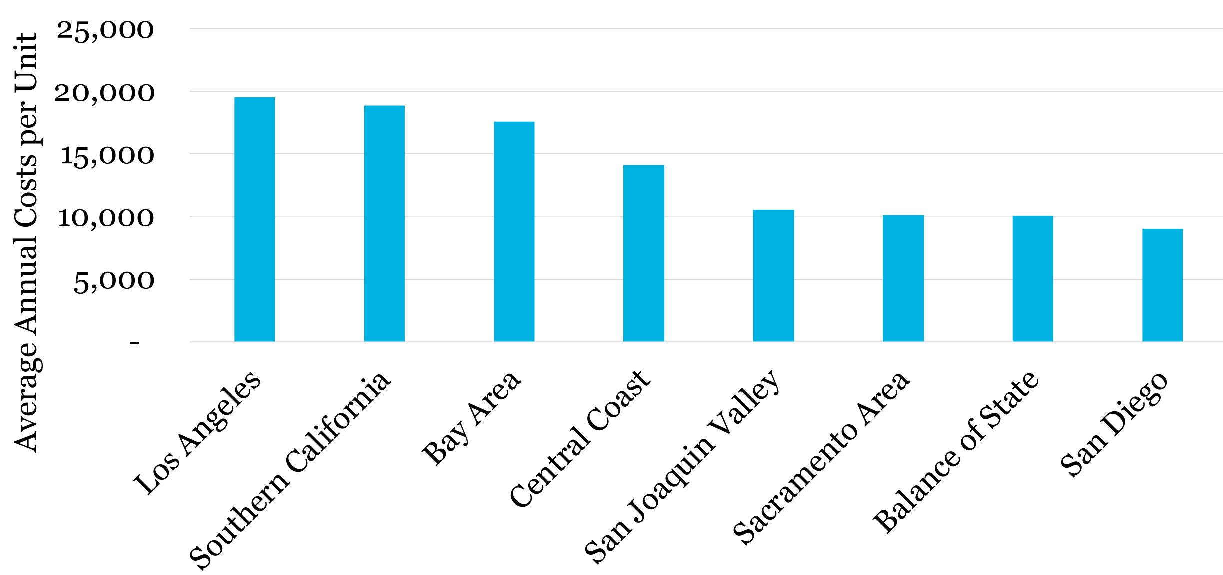
The biggest challenge for Homekey over the long-term is the lack of funding to support property operations.

The single biggest obstacle to the long-term success of Homekey is the lack of operating funds to support property management, maintenance, security, and resident services.[33] Operating expenditures vary based on the population being served and the location and characteristics of the building site. The local labor market context also impacts operating costs; wages for security guards, janitors, and property staff all cost more in higher-cost areas. Although there is no established benchmark for how much it costs to operate PSH, studies that have gathered data on typical PSH operating costs in California have found annual per unit costs ranging from $5,000 to $15,000, with an average of $8,760.[34] The one consistent finding across studies is that PSH costs more to operate per unit than traditional affordable housing. Data on annual per unit costs from Homekey applications show a similar range (Figure 5), though some shelter sites (such as the family shelter at the Clifton) have higher costs due to the added expenses related to providing meals, security, and more intensive, 24-hour operational staffing.

Under Homekey, applicants could request up to two years of operating funds, with a maximum of $1,000 per unit per month. These operating funds—supported by state general funds and philanthropic dollars—were critical to Homekey's success. Approximately 90 percent of Homekey properties requested operating funds as part of their initial application, ensuring that the projects could get off the ground quickly. But less than half of Homekey sites have funding in place to support the long-term operations of their sites, raising significant concerns among project stakeholders about what they would do once the state funds run out.

The challenge of finding sufficient operating funds is not unique to Homekey; any PSH project needs to bridge the gap between the costs of operating the housing and the rents that residents can pay. Supportive housing providers—for example, those who develop new PSH using LIHTC—typically address this gap by layering in additional federal housing assistance, primarily in the form of project-based housing vouchers. However, under federal regulations, a public housing authority may only provide project-based voucher rental assistance for up to 20 percent of its Housing Choice Voucher (HCV) program allocation, with an additional 10 percent that can be used to house people experiencing homelessness.[35] Many

Figure 5: Average Annual per Unit Homekey Operating Costs by Region



Source: Terner analysis of Homekey application data.
Note: Total operating expenses per unit does not include any adjustments for real estate taxes or value of rent-free units.

public housing authorities in California are close to their cap, limiting their ability to apply project-based vouchers to new housing. Even without this cap, HCV allocations going to PHAs in California is well below the need, creating an environment of funding scarcity for project operations.

In regions with PHAs serving as the lead agency for Homekey sites—or where the Homekey project site was developed in collaboration with the local PHA—projects were more likely to be able to cover operating costs by placing project-based vouchers on the property. For example, HACLA is allocating project-based vouchers to all of the Homekey sites it is keeping in its portfolio, and Fresno Housing Authority is similarly going to use its voucher authority to fund operations for the units designed for individuals and families experiencing homelessness.

Even so, many jurisdictions still needed the Homekey operating dollars to provide bridge funding until the vouchers could be allocated to the Homekey units. Scott Smith, Executive Director of the Housing Authority of San Luis Obispo (HASLO), explained that "as we have attrition, we're going to start setting aside vouchers for Homekey, and we think we can free up enough vouchers to place them at the site by June 2022, which is our two-year period. ... I think the sustainability without the vouchers is tough considering the population."[36]

But many projects have not been able to tap into project-based vouchers. Homekey, in part due to its scale and speed, is placing significant pressure on the supply of project-based vouchers, and forcing public agencies to make difficult choices about how to use limited resources. In Oakland, for example, the housing authority did not provide project-based vouchers to the city's Homekey sites, arguing that they had already been promised to other projects. Because the vouchers guarantee a long-term income stream, they are an important part of the capital stack for LIHTC new construction deals, since lenders and investors who provide capital for PSH will only do so with a guaranteed long-term subsidy to support operating expenses and mortgage payments. Several respondents shared their concern that diverting project-based vouchers to Homekey projects is not always the best use. They would rather see the vouchers applied to new construction, to leverage debt. It also increases the likelihood that vouchers would be applied to high-quality, well-designed new buildings, especially since some stakeholders raised the concern that the evidence for how well converted hotels/motels will hold up over the long-term is limited. In addition, vouchers can't be used to support transitional or interim housing, or be placed on units without kitchens.

> "We currently have sufficient project-based vouchers to commit to Homekey projects. They are just coming from a dwindling pool. We're reaching our 30 percent cap. So they're available, it was just they were reallocated from future uses that we were looking at for other permanent supportive housing projects."
>
> Matt Lust, Los Angeles County Development Authority

Homekey grantees are trying to creatively identify other approaches to covering operating costs once the HCD-administered funds run out. For example, the Housing Authority of the County of Kern (HACK) is covering its operating costs by connecting residents with tenant-based vouchers to its Milestone project properties (see Milestone in Bakersfield case study on page 38). This approach increases the risk to the property owner, in that if the tenant chooses to move from the property (for example, to rent a private unit in a different neighborhood), the property loses that source of subsidy. However, the Bakersfield housing market has very low vacancy rates, and HACK knew it had 83 unhoused clients with 1-bedroom tenant-based vouchers who were having difficulty finding units to rent on the private market. This gave them confidence that they could successfully lease up the Homekey sites with tenant-based vouchers. This approach is really only feasible for PHAs, however, since they can shift project-based vouchers to Homekey sites over time if needed.

In interviews with stakeholders at sites without long-term operational funding in place, the owners and operators of the properties were deeply concerned about the long-term viability of their Homekey sites if they cannot identify a source of funds. Jessica Hoff Berzac, the Co-Owner and Principal of UPholdings, based in Fresno, expressed her concern, noting "I will forever need significant operating subsidies… it doesn't get cheaper the longer we go. I wish HCD would create a Homekey follow-through program. In part because of where I work—we don't have significant resources here. I worry about what this means for the program in three to five years."[37] Others said that they were operating on a "leap of faith" that something will come through once Homekey funds run out.

The lack of operating resources will also shape the ability of jurisdictions to compete for subsequent rounds of Homekey funding. Respondents praised HCD for raising the maximum per unit acquisition allowances in Homekey 2.0, but there remains a disconnect between the affordability requirements, which have a minimum 15-year compliance period, and the operating plan requirements, which apply over three years. Several interviews raised the concern that public sponsors are wary of undertaking new projects because they would be the ones responsible for funding years four to 15, a considerable risk especially when there aren't clear sources of local funds to tap into. In Fresno, for example, the county actively pursued Homekey 1.0 projects, but has been hesitant to sponsor additional sites. Berzac shared that "Fresno cannot sponsor additional projects for 2.0. The county is stuck in a difficult position in terms of wanting to help, but also saying 'we don't have the money for long term operations.'"[38] The lack of operating funds has also made it more difficult for public agencies to find development partners. Olatoye noted this has been a challenge in Oakland, saying that "without a minimum 20-year operating subsidy, it's been difficult finding a development partner to assume responsibility for the operations and long-term affordability requirements."[39]

For Homekey properties that still need to undergo conversion to PSH, some places are concerned about finding funding to support the needed renovations.

Homekey capped the per unit cost for state funding. In Homekey 1.0, public agencies could apply up to $100,000 per unit, with up to an additional $100,000 with a local match. (This cap has been increased in Homekey 2.0.) Interviews acknowledged that the state was striving to keep costs low and spread resources across all the high-need areas of the state, and that requiring a match can help to build "public-private" partnerships and bring local resources to the table. But at many sites, the costs to make buildings habitable (even as interim properties) were higher than anticipated. Interviewees noted that insufficient funds for conversions will lead to geographic disparities in the quality and long-term sustainability of Homekey sites. Berzac noted that "in the Central Valley, there are very few match dollars, since it's hard to find funding from local governments... On the Sequoia, a 50-unit motel conversion in Visalia, the Homekey grant only gave us enough to complete safety and accessibility upgrades so that's all we could afford."[40]

One of the important lessons coming out of Homekey 1.0 is that not all hotel properties—even if they're designed for residential use—are well-suited for conversion into PSH. A number of cities—including Los Angeles and San Luis Obispo—were able to acquire Motel 6 properties. However, rooms in these properties tended to be on the smaller side (170–250 square feet), making it difficult to add a kitchenette and abide by PSH unit standards. Leepi Shimkhada, Senior Director of Housing and Services for the Los Angeles County Department of Health Services, said that this was an unanticipated challenge and something they will do differently in Homeky 2.0, noting: "In Homekey 1.0, we were moving quickly, but I think we wouldn't necessarily buy these same types of buildings again. The lack of space in the rooms, and our ability to make these rooms livable and habitable for people long-term, is a challenge."[41]

Other sites noted that the quality of the materials and systems of what they acquired was lower than new construction, which added to costs of renovation. Smith noted that their Motel 6 property in Paso Robles "looked like it was in good condition, and it's not in bad condition, but they're just cheaply built. They're budget motels so we've had to go out and secure additional funding.... We're applying to completely redo the plumbing and upgrade the electrical, which is going to add to our initial development cost estimates."[42] Projects also ran up against local building codes and lack of coordination between planning, fire and safety, and building permit departments, which have extended redevelopment timelines and increased costs in some places.

Construction labor shortages—coupled with requirements to use prevailing wage and skilled trade if receiving a CEQA exemption and/or due to other gap funding program rules—have also delayed projects and driven up costs, especially in the state's inland and rural regions. Gabriel Maldonado, CEO of TruEvolution, and Trigueiro both said that the need to find eligible subcontractors for their sites was complicated. Trigueiro explained that, "Even if we wanted to sort of consider some short-term construction upgrades, the requirement to use skilled and trained labor meant that we couldn't find people available to bid on that. We are very limited in the availability of those types of subcontractors along the Central Coast. So that's really challenging."[43]

As of July 2021, an estimated 60 percent of Homekey projects had not yet undergone conversion to PSH, meaning that many Homekey awardees are still figuring out how to finance the conversions. In Los Angeles, for example, the Conrad N. Hilton Foundation has committed funds to help four city Homekey projects convert to PSH. Chris Hubbard, Program Related Investments Officer at the foundation, said that "the government funds were critical for acquisition, and city funds were provided for immediate repair needs. But many of the sites don't have the funds they need for conversion. We and other philanthropic funders are helping to close some of the gap, though the sites will still need to find additional financing."[44] The higher costs of conversion do not mean that Homekey is not working—without Homekey, these projects wouldn't have been possible at all. But it is important to be realistic about what real estate costs, and ensure that all regions have sufficient funding to do conversions that will lead to high-quality buildings over the long-term.

Numerous interviews raised concerns that it might be harder to find suitable properties in Homekey's subsequent rounds, or that acquisition costs will exceed the program's funding caps. In Homekey 2.0, public agencies can also submit new construction projects for Homekey assistance. But places that have explored this to get around limited inventory are concerned that they won't be able to both do new construction and meet the program's tight deadlines. In San Luis Obispo, Smith noted that this might limit the reach of the program in some geographies: "We're running out of motels that are viable. We've looked at several projects that are possible, but they might involve new construction, they're more complicated, and so it kind of conflicts with the state's goal of getting this done fast."[45] And even with the pandemic's impact on the tourism sector, some hotel/motel owners were asking for significantly more for their properties than appraisals. Ann Sewill, the General Manager of the Los Angeles Housing Department (LAHD), said "The capital is critical, and the model took advantage of the pandemic. But it's not going to be easy to keep extending its impact through future rounds without additional funding, especially as the real estate market recovers."[46]

As Homekey sites shift towards converting their properties into PSH, they are running into problems related to the lack of coordination among funding streams.

Although Homekey greatly simplified the financing process, the combination of insufficient funds to do the conversion and lack of operating support means that many properties are still trying to cobble together funds from different sources. Fresno successfully applied for 9 percent LIHTC credits to redevelop their Sun Lodge Homekey site, but they are concerned that their redevelopment plans for the other three sites—which focus on creating mixed-income properties—are poorly aligned with some of the other sources of capital available through the state. The Bakersfield project initially applied for funding under the state Multifamily Housing Program, but was unsuccessful. While the Kern County Housing Authority was able to get the funds they needed by applying for HCD's special allocation of Community Development

> "All these funding streams keep the development timeline up in the air. How am I supposed to tell the CoC and the five on-site operators [of the current interim housing program] when I need the place vacant for us to start renovations and conversion to permanent? They don't want to bring people in that will have to move out in two months. But we also want to keep people housed as long as possible. The constant dance of funding sources makes it hard to plan with people in mind."
>
> Jessica Hoff Berzac, UPholdings

Block Grant (CDBG) funding for Homekey grantees, other sites are still struggling to piece together the funds for conversion.

The need to find additional sources of funding also brings with it additional challenges. Maldonado shared that navigating all these complexities is challenging, noting "What you don't discover until sometimes when you're already funded, is that there are a whole host of compliance requirements. ... [HCD] was accounting for their own regulations and requirements, but not the compliance requirements across the government agencies."[47] In Los Angeles, the county allocated approximately $115 million from its American Rescue Plan Act funding to use for needed renovations at its Homekey sites, but those funds come with their own requirements that are increasing the timeline and the costs of development.

These competing regulations have created challenges adhering to the "spirit of expediency and flexibility" enabled by Homekey. Respondents noted that there were serious disconnects in implementation and interpretation between the state and the local level regarding "by-right" designations for PSH and CEQA exemptions. Other respondents highlighted the disconnect among HCD programs, for example, saying that they were considering applying for Multifamily Housing Program funds, but were concerned that those would trigger HCD's Uniform Multifamily Regulations. The mismatch between Homekey's desired redevelopment timelines and federal National Environmental Protection Act (NEPA) review that is required under certain conditions is also posing challenges, especially if jurisdictions plan to pursue new construction. Oakland is also running up against NEPA frictions in their efforts to identify operating funds. HUD is requiring that Oakland's eligible Homekey 2.0 projects do a full NEPA analysis in order to receive operating subsidies from the housing authority, which Mun said "puts us in the position of not being able to meet Homekey's deadlines."[48]

The majority of awarded projects were able to fill units within three months, often operating as interim housing to be able to occupy the units quickly. But some projects have faced challenges filling units, while others are concerned about the impacts of relocation on residents when they undertake conversion.

One of the strengths of Homekey is that it was able to house people quickly, serving a critical role in the middle of the pandemic to decrease risk of exposure to the virus and keep more people safe. And it met an unprecedented need. Wendy Lewis, President & CEO of El Camino Homeless Organization (ECHO), emphasized the shortfall of housing and services, saying that "we found that the needs were way higher than we had ever anticipated. Sadly, we're currently turning about 15 to 20 people away each night and not able to serve everybody coming to our doors."[49]

Approximately 20 percent of Homekey properties were initially rented under Project Roomkey, and among those we interviewed, all were able to quickly fill their units. For example, Ben-Ishai said that Los Angeles County had no difficulty filling their interim sites: "Two of our sites were Project Roomkey properties, meaning that the people could stay in place. There was a long queue to get into Roomkey in the first place and we couldn't meet all the need."[50] But even without Project Roomkey, most other interim and PSH sites were able to lease up their rooms quickly.

Still, some sites faced challenges filling their units, pointing to the difficult work it can be to connect people experiencing homelessness into housing. A number of cities prioritized people at Project Roomkey sites that were being "decommissioned" for Homekey units, in order to ensure that no one would be displaced back onto the street. Interviews highlighted that it was sometimes difficult to convince residents living in Project Roomkey sites to move to Homekey PSH units, since the benefits of staying in hotel rooms (with meal service and cable TV access) outweighed moving into PSH. In Oakland, Harold Dawson, the property manager of the Clifton in Oakland, shared the importance of building trust with prospective residents, taking the time to answer their questions and "getting them to feel comfortable with the idea of moving into a unit, paying rent. A lot of individuals we're trying to serve have lived on the streets for years. It's meeting them where they're at and getting them to see this is a positive change."[51] Even as Project Roomkey led to some challenges with lease-up, property operators said that they were finding that the non-congregate shelter provided under Project Roomkey played a critical stabilizing role in people's lives and facilitated a more successful transition into permanent housing.

The second challenge in some jurisdictions was matching PSH units and their operating subsidy requirements with residents coming off of the Coordinated Entry System (CES) list. While Homekey uses a relatively expansive eligibility definition—requiring only that individuals are either experiencing homelessness or at risk of homelessness—other sources of funding require stricter targeting. For example, projects using Veteran Affairs Supportive Housing (VASH) vouchers require that

> "Project Roomkey gave service providers an opportunity to get to know clients and understand their needs. The access to transitional housing and supports means that Project Roomkey referrals often look more stable than our traditional CES referrals. It shows the important role that transitional housing can play in leading to long-term success in staying housed."
>
> Dominique Cohen, MidPen Resident Services Corporation[52]

recipients be veterans and also chronically homeless. In Oakland, this presented difficulties in leasing units in the Inn at Temescal. Mun noted that "the CES list was a challenging way to find eligible occupants. Those on the list would not answer calls, had changed their phone numbers, or had moved. This added significant time, as we had to dig deep through the list to find Veterans. Ultimately we had to go outside of Coordinated Entry."[53] Other sites used dedicated outreach workers to find people living in encampments. Amy Perkins, a consultant to the Los Angeles Homeless Services Authority (LAHSA), said that "Los Angeles has done a lot to improve its CES system, and in general it works well. But I do wonder if as a field we have placed too much fidelity to this model and finding the 'highest need' person. We need more ways to use qualitative data and place-based strategies to do a better job of matching people with the best housing for them."[54]

A third concern that emerged is the eventual relocation of those living in interim units during renovation and/or conversion. Because Homekey required that sites be occupied right away, staff expressed concerns about how they would keep participants safe during construction and/or the challenges they would face in temporarily relocating households during the more extensive rehabilitation that would be needed for conversion. Amie Fishman, Executive Director, Non-Profit Housing Association of Northern California (NPH), said that "these are people already experiencing trauma, who may have health issues and distrust the system. It's so difficult to move them, even temporarily."[55] Perkins raised similar concerns, saying that Los Angeles "is talking a lot about transfers and relocation, and how to do it well. For someone who has experienced homelessness, you want to minimize moves. Moving them may just make them worse in the new place."[56]

Respondents highlighted the importance of planning the transition of hotels/motels into housing, given that these properties often already have residents on-site.

Residential hotels have long served as temporary housing of last resort for those at risk of homelessness and are often occupied by low-income or housing-insecure people.[57] This can complicate the process of conversion. In Bakersfield, for example, approximately 60 households were already living in one of the properties, and nearly half of them didn't qualify to stay, mostly because their household sizes—in some cases 7 people living in a room with just a mini-fridge—were too large to accommodate under program guidelines. These households were given vouchers to relocate, but it added to the complexity of the project. Other sites reported having increased costs over their initial budgets due to unexpected relocation expenses.

Existing neighborhood conditions also posed challenges at some sites, particularly with properties that had a history of criminal activity. Several interviews brought up the unexpected challenge of needing more security at the Homekey properties. In Bakersfield, interviewees noted that one of the buildings was in extremely poor condition, violating numerous building codes, and was serving as a site for criminal activity as well as a place for people with mental illness who were not receiving services. Will Triplett, Milestone's Aftercare Supervisor with the Bakersfield Homeless Center, said that "people used to come to the site for negative things. Now that we're here, that doesn't mean that this space has stopped being a place where people come for that. We found that having security was important because it shows that we're taking on the responsibility of the property, and to change the reputation of the site within the neighborhood and community."[58] The existing high levels of unmet need for supports and services in the community also added to the project's complexity.

Funding for supportive services are still well below need, and interviews highlighted the need to strengthen the system's capacity to provide culturally responsive and trauma-informed care.

The Corporation for Supportive Housing provides guidance on services standards within PSH, but interviews revealed that there is no one set model and service organizations structure their work in different ways.[59] As one respondent shared, "We often think of PSH as a catch-all service-rich environment, but what is actually provided can vary widely." For example, a review of the application and expenditure data show that some of the Homekey properties include on-site supportive services staff 24 hours per day, who can undertake crisis interventions and de-escalation as well as case management. But others only allocate a part-time case manager who meets with tenants a couple of times a month.

> "I guess the moral of the story to me is, if our society wants these to be replicable and sustainable, we need to invest in them. We're taking people literally who've been homeless for decades. On the VI-SPDAT vulnerability index, they're super high. There's a lot of intense case management needed. And that's where the money's needed. It's really, truly assisted living."
>
> Scott Smith, Housing Authority of San Luis Obispo

Many interviews highlighted that proactive presence of trained professionals can make a significant difference in the well-being of residents. Jennifer Scanlin, Chief Strategic Development Officer for the Housing Authority of the City of Los Angeles, said "for many residents, moving from the street into a home, it can be confining and make them anxious or combative. Having to address that means needing culturally sensitive staff on-site."[60] Berzac similarly raised the importance of having high-quality services on-site:"The behavioral health, substance abuse kind of services are supposed to be by-right. But getting providers to do them in robust, engaging ways vs. 'sure they can call us' are two different things. Right now we're in the process of securing services on-site, full time. If we can't find staff, resources or funding for that, we're not helping residents in the way we should."[61] Having the right level of services can also support the viability of the property. In Los Angeles, for example, Shimkhada said that at one site, "we funded our provider to do 24/7 care. We had to dip into our budget for this. We'd never deployed 24/7 case management services before. But the costs will be worth it. We had to do it because this was a property that was going to fail if we didn't put in the resources."[62]

One promising development for funding services going forward is the California Advancing and Innovating Medi-Cal (CalAIM) initiative. Multiple interviewees expressed high hopes that CalAIM would help close the gap in funding for residents with high health needs. For example, if the units in a PSH building are occupied by Medi-Cal eligible tenants, in theory, the case manager costs of serving those households could be covered by the new flexibilities authorized under CalAIM. However, there needs to be intentional efforts to build capacity to ensure that CalAIM reaches those who need it, including making sure that all eligible residents are enrolled in Medi-Cal. In addition, with CalAIM, services will become tied to health care organizations, instead of the county which has traditionally coordinated mental and behavioral health services, meaning that health care organizations will need support in understanding how to manage service provider contracts and making sure that people are accessing their assistance.

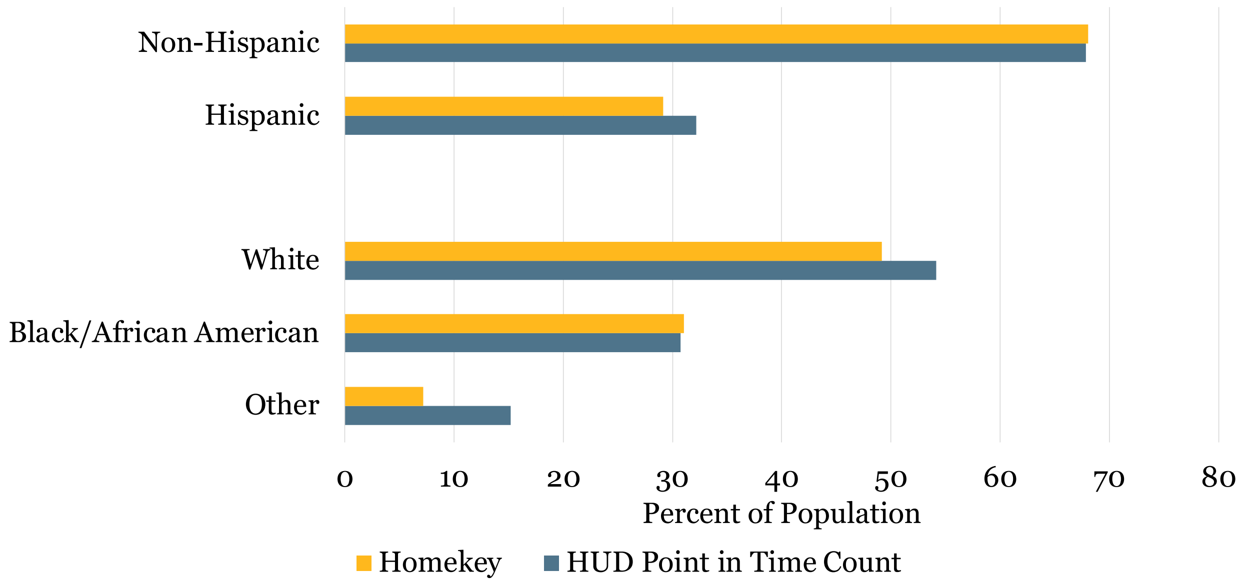
In addition to funding constraints, multiple interviews raised challenges with staffing and organizational capacity. In Los Angeles, Scanlin said that "now that there's suddenly all these resources and opportunities to do permanent housing, we are running into capacity constraints. It's a small pool of providers and developers, everyone is hitting a max capacity—it's becoming a challenge to staff up to receive these sites and provide the services at the same level and quality that is required."[63] In many cities and counties, there are hundreds of vacant positions, and service providers in particular raised the fact that many outreach and other providers of direct services do not earn enough, making it difficult to recruit and retain staff. Friedland emphasized that in providing effective responses, "the who is just important as the how. Are we paying people enough, are we training them enough, so that they're supported?"[64]

Despite Homekey's emphasis on racial equity strategies as part of both the application and reporting structure, very few sites have an explicit lens on racial justice, and data gaps make it difficult to know who is being served.

Data from Homekey expenditure reports suggests that the racial and ethnic composition of those living in Homekey properties is similar to the racial and ethnic composition of people experiencing homelessness in California (Figure 6). However, differences in data collection as well as in the race and ethnicity categories used between Homekey and the Point-in-Time (PIT) Count make this challenging to verify. For example, race and ethnicity information was not provided for nearly 15 percent of people living in Homekey properties. Additionally, the PIT Count offers a 'Multiple Races' category that is not reported by Homekey operators.

Interview respondents also admitted that the combination of the pandemic and the speed at which Homekey was deployed made it difficult to have an explicit strategy around racial equity. Several shared that they weren't sure how to go about embedding racial equity other than practicing "fair housing," and raised concerns based on studies that show that Black households in particular experience a higher rate of returns to homelessness than other racial and ethnic groups.

Figure 6: Racial Composition of Homekey Residents Compared to 2020 PIT Counts



Some Homekey projects explicitly target inequities as their core mission, however. For example, the Scotts Valley Band of Pomo Indians acquired a ten-unit apartment complex in Lakeport as part of their broader effort to address high homelessness and housing insecurity among tribal members (see Scotts Valley Band of Pomo Indians in Lakeport case study on page 40). The Mountain View Estates, by the Riverside County Housing Authority and Riverside Community Housing Corp., acquired 107 mobile homes to serve precariously housed farmworkers in the Eastern Coachella Valley. All 40 people housed in the project's first six months identified as Hispanic/Latinx.

Project Legacy, by TruEvolution in Riverside, focuses on people living with HIV as a group warranting additional resources (see Project Legacy in Riverside case study on page 42). Maldonado described stronger incorporation of community-based organizations directly focused on social justice and racial equity as one important avenue for future Homekey rounds. TruEvolution is a "community health and social justice organization" serving people living with HIV, LGBTQ communities, and communities of color. Homekey stood out as an opportunity for TruEvolution due to the emphasis on social justice in its NOFA. However, Maldonado described vast resource differences between community-based organizations like TruEvolution and many housing developers. Homekey could further support equity-focused community-based organizations with technical assistance and more flexible timelines. Maldonado said "if that's where we want to move, and it's this racial justice lens that we're trying to lead with, I think we need to make this more accessible to a wider range of organizations, since most developers and government agencies do not have a background in racial justice work."[65]

Conclusion

Homekey is poised to add a large number of PSH units to California's housing supply, and has demonstrated that single-source capital funding and regulatory streamlining can help to get units online much more quickly than typical affordable housing development. The critical piece will be to continue the spirit of innovation and flexibility to respond to changing market conditions and to ensure that both existing and future Homekey projects have the resources they need to be effective. There are no easy answers to the challenges respondents raised—they relate to a continued environment of federal funding scarcity and an affordable housing system that remains fragmented—but there are opportunities to improve the system.

Our recommendations include:

Address the shortage of operating funds before the Homekey support runs out. Operating funds are critical to sustaining the long-term viability of these properties. The costs of not providing operating funds are high. Respondents consistently highlighted deep concerns over financial risk and viability, the potential for these properties to become "blight" with insufficient upkeep (thereby also reducing public support for affordable housing), and poor resident outcomes.

There is not an easy answer for how to close the gap in operating funds. A resuscitated Build Back Better bill at the federal level may expand voucher allocations, allowing for more project-based vouchers to be placed on Homekey units. Had the bill passed, voucher authority in California would have increased by an estimated 30 percent, providing much needed subsidy for both Homekey projects as well as other affordable housing.[66] Continued advocacy at the federal level for an expansion of the voucher program is critical. Even so, it is unlikely that any politically feasible federal expansion of housing assistance will be large enough to meet the high levels of demand in California.

That said, there are opportunities to use existing resources more effectively, and to prioritize dollars for PSH and extremely low-income units. Santa Clara, under the auspices of Destination: Home, has worked hard to build the political will to address homelessness. The city, county, and PHA now work together to coordinate funding across projects under development, thereby ensuring that PSH and other deeply affordable housing deals have priority for local, state and federal resources. In Los Angeles, HACLA is prioritizing PSH in its project-based voucher program to support the expansion of PSH under Measure HHH and Homekey. Many stakeholders suggested that there needs to be better coordination at the local level so that project-based vouchers aren't being "held" unutilized for future projects that might take 1-2 years to get to construction. Building these cross-sectoral and jurisdictional relationships takes time, but this is an area where state and/or philanthropic support could help to foster stronger collaboration.

In addition, the state could help to support jurisdictions to tap more effectively into existing federal funds. For example, HUD is working to expand its Faircloth to Rental Assistance Demonstration (RAD) guidance, which could provide expanded capacity for long-term rental subsidies. Although the Faircloth Amendment capped the number of public housing units the government can build,[67] many PHAs operate fewer deeply rent-assisted units than is allowed under their Faircloth cap. Lack of funding for new construction has limited the ability of PHAs to increase their units back up to their Faircloth caps, but the strength of Homekey is that it provides that capital funding.[68] There is an opportunity to pilot a model where Homekey would provide the capital support, which would then unlock existing federal authority to provide deep rental assistance. However, local expertise on how to implement this strategy is limited. HCD and/or philanthropic partners could provide technical assistance and pro forma development expertise to local PHAs and their Homekey partners to explore this option. The federal HOME Tenant-Based Rental Assistance (TBRA) program provides another underutilized source of federal funds, which could be used to provide a three-year bridge until the local housing authority, can accumulate enough project-based vouchers for their Homekey properties. Currently, not all PHAs in California have HOME-TBRA authority and some are prioritizing those funds for homeownership or other rental projects.

In addition to helping localities better align and access existing funding sources, the state should explore the possibility of establishing a state pool of funds as well. One option would be to create a state-level voucher program for Homekey properties. Massachusetts has a state-funded voucher program which provides approximately 2,100 tenant-based and 3,000 project-based vouchers each year.[69] Absent a state voucher program (which can be difficult to establish due to the long-term funding commitment), some respondents recommended that the state create an "operating fund reserve" that projects could apply to if they are experiencing a funding gap that threatens their project viability. This type of an emergency fund could help to ensure the long-term impact of the state's capital investments.

Consider greater flexibility in who Homekey is serving. There is no doubt that the state needs to prioritize housing for people experiencing homelessness, and reduce the number of individuals and families who are unsheltered. However, several respondents wondered whether building and operating Homekey properties as 100 percent PSH—especially those focused on people with the highest VI-SPDAT or needs assessment score—was the best approach. Allowing greater income-mixing within the properties would help to resolve some of the problems related to a shortage of operating funds, and expanding eligibility to very low-income households would boost rental streams and reduce inflow into homelessness. Sewill explained that "if I can include some households at risk of homelessness, with incomes at the 30–50 percent of AMI level, then that could provide some cross-subsidy for units where the resident can't pay much in rent."[70] The ability to mix populations and not have to project-base the entire building may make it easier to make Homekey projects financially viable.

In addition, some respondents said that although 100 percent PSH can lead to some service level efficiencies, in other cases, these properties may cost more to manage because the high levels of need and trauma can exacerbate mental health and substance abuse issues. While the research on PSH is conclusive about its positive impacts, there is still a lot to learn about the relationship between services costs (and what and how services are provided), the mix of needs within a PSH property, and resident outcomes.

Ensure that existing Homekey properties have the resources they need to successfully convert. While there should be collective efforts to bring down the costs of PSH development (and affordable housing more broadly), policy makers and stakeholders need to recognize that acquisition/rehab costs do not operate independently from California's high-cost real estate market. The COVID-19 pandemic provided a unique opportunity to acquire hotels/motels at lower than market costs, but those conditions have changed, and not all buildings are well-suited to long-term housing. The per unit costs of Homekey are going to be higher than the original acquisition costs, and in some cases, will be similar to development costs seen in other affordable housing programs.

Going forward, the state should consider how to better support jurisdictions who cannot acquire high-quality properties without local matching funds, and ensure that new Homekey properties have the funding in place at the front end to convert successfully. Homekey adds meaningfully to the funding toolkit, and the emphasis on acquisitions of underutilized buildings is long overdue. But it is also important to ensure that the resulting assets are high-quality and well-suited to long-term PSH or affordable housing.

Align state funding sources and underwriting standards. We estimate that around half of Homekey 1.0 sites will need additional state or federal funding for conversion. HCD has already helped to bridge those funding gaps by making special allocations of CDBG funds available to Homekey properties. But there are other important sources of funding that many respondents said they were looking into for conversion, including the No Place Like Home Program, HHAP grants, and the Multifamily Housing Program, as well as LIHTC and HOME's American Rescue Plan supplement. However, the lack of alignment of program funding cycles and priorities, as well as different regulations, work counter to Homekey's goal of bringing units of PSH online faster.

While AB 434, passed in 2020, directs HCD to streamline applications for six of HCD's rental housing programs, folding Homekey into that process would work against the time efficiencies created by its "over the counter" rolling application process, leading to longer timelines between applications and awards. Instead, the state could consider waiving some of the program requirements of other sources of state funds for Homekey projects (for example, funds that trigger the Uniform Multifamily Regulations). The state should also work to get a NEPA waiver from HUD for Homekey projects. Mun emphasized that this might be one of the single biggest reforms impacting the success of future rounds of Homekey: "In spite of all the partnership and innovation with the Oakland Housing Authority to get operating support for Homekey 2.0 projects, HUD is still requiring NEPA. This is a critical path issue for Homekey—we simply cannot do any more Homekey until HUD allows NEPA streamlining the way that the state built in CEQA streamlining."[71]

Build on the state's ongoing efforts to increase jurisdictional accountability streamlining regulations. Homekey's regulatory streamlining and CEQA exemptions are critical to the success of the program. But different communities are interpreting state laws in different ways, and neighborhood opposition has derailed some proposed Homekey projects. In both San Francisco and San Jose, promising Homekey sites have been shut down by coordinated community actions. Given the importance of expanding the supply of PSH, the state's new housing accountability unit should prioritize local denials or delays of Homekey projects for its docket of investigatory authority.

Expand administrative capacity around CalAIM. The potential for tapping into health care spending for PSH and resident services is enormous. But effectively using CalAIM and Medi-Cal presents administrative hurdles, especially for affordable housing developers and owners who may not have experience working with managed care organizations or their billing systems. Rather than having local organizations figure it out themselves, the California Department of Health Care Services (DHCS) and HCD should work together to provide guidance on how PSH operators can maximize Medi-Cal for covering operating costs, and help establish the infrastructure to do so across regions. This could help to shift the true costs of operating PSH away from real estate budgets to Medi-Cal. This will not be easy, but given the complexities, there is a strong argument to be made for state-level leadership and coordination on this issue. Some respondents said that in an ideal world, DHCS and HCD would work together to create a system where CalAIM funding was automatically attached to HCD-funded Homekey (and other PSH) units.

Continue to help build capacity and share lessons learned across grantees. Despite the very different market and political contexts that Homekey projects are operating in, many of the interviews surfaced similar challenges. HCD has increased its technical assistance resources for Homekey applicants, but respondents highlighted the desire for more opportunities to help build capacity for PSH conversions and share lessons learned across grantees.

Some key areas where respondents felt they could use more support include a better understanding of which types of properties are best-suited to conversion, how to manage security at properties in a trauma-informed way, how to better address concerns around racial equity, and how to do effective community engagement. Several respondents wanted to learn more about research that could help to inform their CES strategy and in what ways the VI-SPDAT and prioritization were working and where improvements could be made to better target the right resources to each individual or household. Merriman noted "It's not just about any housing or PSH as the right solution for everyone. We need to get better at thinking about how we make sure, whoever is next in line for assistance, that they can find a home that is the best fit for them, and how do they have some choice? Alternatively, who may not need services and really just needs rental assistance? And how does the lead agency do that match?"[72]

Improve data collection. In recent years, HCD has greatly improved its data collection and oversight of state programs, but there are still gaps in Homekey data coverage and quality. Some of these gaps have been addressed in data collection for Homekey 2.0, but there is significant potential to learn more about the impact of Homekey and how it is addressing homelessness in coordination with other local, state, and federal investments. Working with the California Interagency Council on Homelessness, efforts should be made to expand capacity at the local level to collect relevant data, monitor data quality, and help build a stronger evidence base for how Homekey is working in concert with other programs to address homelessness.

The COVID-19 pandemic led to a significant increase in funding—and the development of expertise and identification of best practices—in converting distressed hotels into affordable housing, and specifically, PSH. California has emerged as a leader in this area. Homekey greatly improves the capacity of local jurisdictions to expand the supply of PSH in meaningful ways and often more quickly and cost-effectively than other affordable housing programs. The next two rounds can build on the lessons learned from Homekey 1.0, and ensure that state funding is being deployed as effectively as possible to address homelessness across the state. In a field that has long been limited to LIHTC as the primary tool for adding to the nation's affordable housing supply, Homekey shows the value of adding to that toolbox through flexible capital that can be used to acquire undervalued properties for conversion into affordable and supportive housing. Continuing to invest in long-term financial, legislative, and technical support for Homekey projects will expand the program's impact and ensure the financial and physical sustainability of these properties, as well as improve resident outcomes.

CASE STUDY: HOMEKEY IN LOS ANGELES

Homekey 1.0 Award Amount (Total Los Angeles County): $268 million

Number of Sites Acquired: 28

Number of Doors: 1,832

Lead Applicants: Housing Authority of the City of Los Angeles, County of Los Angeles, City of El Monte, City of Long Beach

Development Plan: Emergency shelter, interim, and permanent supportive housing

In 2020, Los Angeles County had over 63,700 individuals experiencing homelessness on a given night, 46,000 of them unsheltered. Recognizing the scale of the problem, the city and county have invested significantly in addressing homelessness in recent years, with multiple city and county agencies working to expand access to shelter and PSH. These agencies also work in partnership with the Los Angeles Homeless Services Authority (LAHSA), which serves as the lead agency in the Los Angeles Continuum of Care and manages over $800 million annually in federal, state, county, and city funds for programs that provide shelter, housing, and services to people experiencing homelessness.

The region's scale and complexity is mirrored in its approach to Homekey, with numerous different entities leveraging Homekey resources to develop interim housing and PSH. All told, Los Angeles purchased 28 properties using Homekey 1.0 funds. Los Angeles County was the lead public agency for 10 of the sites, the city, through HACLA, purchased 15, the City of El Monte acquired two, and the City of Long Beach acquired one.

For HACLA, Homekey 1.0 provided a unique opportunity to expand the number of properties it operates. HACLA manages a significant portfolio of properties, ranging from 10 to 100+ units, and their strategic plan calls for the development of more PSH. Jennifer Scanlin, Chief Strategic Development Officer at HACLA, said that "there were neighborhoods where we knew there was a lot of demand, especially among families, but where we didn't have many assets to meet the need. Homekey provided the resources to add a lot of properties quickly."[73]

The county similarly saw Homekey as an opportunity to acquire a number of properties quickly. Elizabeth Ben-Ishai, Principal Analyst for the Homeless Initiative in Los Angeles County, said that the county initially wanted to focus on acquiring Project Roomkey sites, but some owners declined: "Homekey 1.0 was on such a tight timeline, we really were just trying to get as many viable options as quickly as possible. But some owners asked for unreasonable prices relative to appraisals, which eliminated potential buildings. We were able to get a good deal on a bundle of Motel 6 properties, but they weren't necessarily all ideal."[74]

Interviews with stakeholders at both the city and county said that not every hotel or motel is right for PSH. Tina Smith-Booth, Director of Asset Management at HACLA, emphasized the fact that hotel/motel conversions were a "relatively new form of development, we haven't done many of these, so it was a learning curve."[75] One recommendation for any acquisition/rehab project is to spend more time on due diligence so that project managers can "really know what you're buying." At the beginning of the COVID-19 pandemic, it was difficult to go on-site and fully understand the property condition and existing occupancy. Scanlin noted, “when you only look at 10-15 rooms on-site, you don’t get a full picture of the property, and not all owners present everything you need to know during the disclosure process.”[76]

The county also emphasized the importance of knowing whether a property is occupied with long-term residents prior to acquisition. Leepi Shimkhada, Senior Director of Housing and Services for the Los Angeles County Department of Health Services, said that they learned this lesson the hard way. On the day that escrow closed at one of their sites, they “noticed some long-term residents with vouchers from nonprofit partners living there, including multigenerational households and families with small children. This property—with really small rooms—isn’t great for them long-term. After a year, we’re still trying to find the most thoughtful pathway out by securing tenant-based subsidies to find the households more appropriate housing.”[77] Smith-Booth emphasized the importance of having a plan to secure properties while they are vacant: “A lot can happen between acquisition and occupancy, and planning and budgeting for security—having a clear transition plan for janitorial or front office support—is critical to the success of effectively managing these properties.”[78]

As of December 2021, all but four (three acquired by HACLA and one by the county) of the sites are operating as interim housing. In June 2020, the City and the County of Los Angeles entered into an agreement to jointly fund operations for 6,000 interventions for unsheltered people experiencing homelessness for five years. Homekey is supporting the region’s ability to provide housing for those individuals, and as of January 2022, has provided over 1,000 people a place to live.

While the majority of properties are still operating as interim housing, both the city and county were able to acquire a few properties ideally suited to convert to PSH from the start. As part of its Homekey acquisitions, HACLA was able to purchase a Best Western in North Hollywood. It had just been constructed, and had larger room sizes (800-900 square feet) that made it easier to add kitchens. LA Family Housing, the CES partner, has been working to lease-up the 69 units which are supported with project-based vouchers, with LAHSA paying for resident services. The county was similarly able to purchase a Studio 6 hotel in Compton, which included 81 rooms with kitchens, and had the necessary fire upgrades, for $250,000 per unit. The county used some of its own funding to close the gap in acquisition costs, and will use Measure H funds to provide operating subsidies for the first 10 years. They were able to fill all the units within 90 days of acquisition.

Los Angeles has significantly improved collaboration around housing and services in recent years. Shimkhada shared that Los Angeles is a “pretty tight knit circle around homeless services,” and noted that having LAHSA as the lead on a lot of services (partly due to local Measure H), has helped coordination. She continued, “It’s not perfect—we’re still struggling with the VI-SPDAT tool and there can be challenges working across big departments because the scale of Los Angeles County is as large as some states. But we meet once a week at the leadership level and even more frequently at the staff level, which helps us work out any snags.”[79] There also have been significant efforts to improve the CES system. Amy Perkins, a consultant to LAHSA, said that one challenge in Los Angeles is “How do you create a system—the size and scale of LA—that both leverages all the dollars that are coming into your region, but that also responds to the diversity of needs and capacities in local areas and that can get down to the human scale of the people you're trying to help?"[80] One approach LAHSA has taken is to create service planning areas, each of which serves as a bridge between different subpopulations (e.g., youth, single adults, and families) and available resources. Each service planning area has a "matcher" in charge of working with case workers that know the clients and matching them to resources as they become available. Even so, Perkins said that they were "constantly evaluating what's working and not. There's still a lot to learn about effectively connecting people to the housing and services they need to be successful."

Homekey's capital allocation to the Los Angeles region totaled over $265 million, which was leveraged with an additional $140 million in local funds. The program has helped both the county and city make significant additions to its stock of interim housing and PSH. Still, interviews raised the need for more funding—both for conversion and for operations. At many of the sites, even the basic physical upgrades/repairs were underestimated both in terms of scope and cost. Matt Lust, Manager of Affordable Housing Finance and Development at the Los Angeles County Development Authority, noted that "the state's Homekey funds are largely going towards acquisition, but in most cases aren't enough to fully cover rehab or capital improvements. To get these deals to the finish line it will require significant capital matches on our end, as well as debt financing in some cases."[81]

First to Serve staff deliver clean clothes to residents' rooms at a Homekey site in Harbor City. The project was a former Motel 6 and is providing interim housing for 54 individuals as the county works on plans to convert the property into PSH.

Photo Credit: Los Angeles County

CASE STUDY: HOMEKEY IN PASO ROBLES

Homekey 1.0 Award Amount: $12.9 million

Number of Sites Acquired: 1

Number of Doors: 113

Lead Applicant: Housing Authority of San Luis Obispo (HASLO)

Development Plan: Emergency shelter and permanent supportive housing

The Homekey project in Paso Robles is a converted Motel 6 collaboratively operated by the Housing Authority of San Luis Obispo (HASLO), People's Self-Help Housing Corporation (PSHHC), and El Camino Homeless Organization (ECHO). The project has 113 units, initially estimated to cost $130,000 per unit after basic rehabilitation. The site is conveniently located to retail areas, including a grocery store and food service establishments. Both HASLO's executive director and PSSHC's president noted that Homekey's streamlining was a key advantage to get the project up and running quickly, particularly its by-right approval process.

To meet the area's need for both short- and long-term housing, the project is split between PSH (operated by HASLO and PSHHC) and emergency shelter (operated by ECHO). Prior to the Homekey project, the closest emergency shelter was an ECHO site more than 10 miles away in Atascadero. The temporary shelter serves as a stepping stone to the PSH portion of the project. As ECHO's President & CEO Wendy Lewis explained at the 2021 San Luis Obispo Housing Summit, "it was just this perfect channel of people getting stabilized, getting in a good place with us, and then now they're permanently housed on the HASLO side."[82] ECHO also hired an outreach worker who helps connect people living in nearby camps to the emergency shelter. This project's unique design, as well as the area's high needs, allowed both

The Paso Robles Homekey site converted a Motel 6 into more than 50 units each of PSH and temporary shelter.

Photo Credit: The Paso Robles Press

portions of the project to fill quickly. The speed of filling the emergency shelter was particularly advantageous for meeting Homekey's 50 percent occupancy requirement within 90 days.

Paso Robles Homekey's dual approach was aided by the close collaborative relationships between HASLO, PSHHC, and ECHO. HASLO provided vouchers for people exiting ECHO's shelter in Atascadero, and HASLO and PSHHC have worked together for many years. The three organizations also meet weekly about the project's ongoing operations and specific residents' cases. To support long-run operations, HASLO is setting aside project-based vouchers as they become available. However, these vouchers can only fund the PSH side of the Homekey project. HASLO received a one-time Enterprise Community Partners grant that initially funded ECHO's emergency shelter operations, but ECHO will need to generate revenue to fund operations in the future, according to an interview with Scott Smith, HASLO's executive director.

HASLO and PSHHC are also pursuing additional funding for more extensive rehabilitations to the property. The renovations that were initially required were limited, which helped to fill the site quickly. However, the property requires more extensive renovations, like new plumbing and electrical wiring, for long-term habitation.

CASE STUDY: PROJECT RECLAMATION IN OAKLAND

Homekey 1.0 Award Amount: $8.6 million

Number of Sites Acquired: 15

Number of Doors: 80

Lead Applicant: City of Oakland

Development Plan: Scattered site single-family homes, permanent supportive housing

Oakland's Project Reclamation is the only Homekey program employing a single-family home, scattered site model. This unique project is a partnership between the City of Oakland, Bay Area Community Services (BACS)—the city's largest provider of services for unhoused residents—and its real estate holding company, BACS Housing Corporation. Project Reclamation involved the purchase of 15 independent single-family homes each with five to six bedrooms. Properties offer co-living experiences: tenants have their own bedrooms but share amenities including kitchens, bathrooms, and backyards. BACS purchased vacant properties in move-in-ready or near-move-in-ready condition, thereby reducing the need for costly renovations or tenant relocation during rehab. They also carefully assessed the homes' location in relation to other local resources, such as public transportation access, grocery stores, and health care centers.

BACS was awarded $8.6 million in Homekey funds, which they supplemented with philanthropic dollars to get to the $10 million in total development costs. The biggest challenge they faced was the timing of funds. Jamie Alamanza, the CEO of BACS, shared that in Oakland's tight real estate market, it is difficult to purchase a property without an all-cash and no-contingency offer. To acquire single family homes, BACS had to put cash down up front and wait for reimbursement to filter through the city and state bureaucracy. Alamanza said, "We had to take a real leap of faith to beat the timeline. I had moments where I was worried about whether we'd make payroll because we'd put all our funds toward acquisition."[83]

In funding operations, Project Reclamation is uniquely situated. Small site models do not require capitalized operating reserves. As such, BACS finances operations—estimated at $2,137 per unit per year—primarily with tenant rents and avoids the need to find operating subsidies. BACS requested only $186,000 in operating subsidies from HCD, which they are using for a rental mitigation fund. This fund offsets losses in rental revenue during the first year of residency, during which time tenants are still settling in and building the skills needed to become financially stable and pay rent (for example, opening a bank account and improving their credit record).

BACS also provides supportive services as part of their scattered site model. These services are funded in part by billing Medi-Cal. Figuring out the Medi-Cal billing system was far from simple, but it has become a critical funding stream to cover services costs. Staff visit each home multiple times a week to facilitate house meetings and respond to problems.

BACS has operated supportive shared housing since the 1970s with great success and believes communal housing is key to solving homelessness—both in tackling supply and in combating isolation and stigmatization. But this housing model is poorly supported by existing public policies. “Our policy around voucher structures and rental support needs to change to allow for more varied types of housing,” says Alamanza. She also believes that Project Reclamation serves as an important model to combat displacement, grounded in a vision of racial justice. BACS properties are located in historically Black Oakland neighborhoods and house individuals with family histories rooted in these communities.

Project Reclamation purchases single-family homes and converts them into permanent co-living spaces.
Photo Credit: Bay Area Community Services, http://bayareacs.org/bacs-connections-february-2021/

CASE STUDY: "MOTEL DRIVE" IN FRESNO

Homekey 1.0 Award Amount: $20.1 million

Number of Sites Acquired: 4

Number of Doors: 325

Lead Applicant: Housing Authority of the City of Fresno

Development Plan: Mixed-income redevelopment, including permanent supportive housing

Fresno has taken a unique approach to its Homekey investments: rather than focusing on housing units alone, Fresno used the Homekey program to support its place-based investment strategy in West Fresno. The Fresno Housing Authority acquired four Homekey sites on Fresno's "Motel Drive." Motel Drive includes over a dozen motels on Parkway Drive and nearby streets, all adjacent to Highway 99. In addition to these four Homekey sites, the city has acquired two other motels on Motel Drive using CARES Act funding, with more acquisitions in progress as of mid-2021. All told, the Homekey 1.0 sites provide 321 temporary housing units that will be converted to PSH following renovations.

These projects are part of a broader, long-term development plan for Fresno's Jane Adams neighborhood. The city had long been considering possibilities to invest in the area to reduce poverty and crime rates. Fresno Housing Authority's Chief Real Estate Officer Michael Duarte explained, "we knew that the impact we were looking for really required multiple properties." Financing acquisitions was the primary hurdle, and "when Homekey came around, that was the answer we were looking for."[84]

Currently, all four sites are operating as interim housing, and bring together several partner organizations. Turning Point of Central California provides case management services for all four sites, in partnership with other service providers. Like other interviewees, they had no difficulties occupying units. Doreen Eley, Assistant Director of Special Programs at the Fresno Housing Authority, described that "there's a vast need." The Fresno Homekey sites are "strictly Housing First. There is no screening whatsoever. We take you exactly as you are at that particular moment."[85] One project, Step Up on 99, is dedicated to families with children while the other three projects serve individuals. Eley further explained that "children add just a different dimension to things," particularly children's educational needs, like transportation to school.

Although currently serving as housing for those experiencing homelessness, the city is also cautious not to perpetuate concentrated poverty in the area, instead envisioning that they will build mixed-income housing in place of 100 percent PSH at the sites. These renovations will combine rooms into approximately 185 housing units targeting households at different income levels, as well as ensuring a greater supply of larger (one- and two-bedroom apartments) to meet local needs. They will also take advantage of the land currently dedicated to parking to expand supply. Existing Homekey residents who will not remain at the new sites will be given tenant-based vouchers and relocation assistance.

Fresno Homekey 1.0 Sites

Step Up On 99, formerly Motel 99 98 units; $107,984 per unit Will be converted to 49 apartments	**Sun Lodge,** formerly Days Inn 97 units; $105,093 per unit Will be converted to 49 apartments
Journey Home, formerly Welcome Inn 79 units; $126,744 per unit Will be converted to 40 apartments	**Golden State Triage Center,** formerly Parkside Inn 47 units; $136,311 per unit Will be converted to 24 apartments

The Sun Lodge property is a converted Days Inn that currently provides almost 100 units of interim housing. The property will eventually be converted into affordable housing, including PSH.

Photo Credit: Fresno Housing Authority

CASE STUDY: MILESTONE IN BAKERSFIELD

Homekey 1.0 Award Amount: $13.3 million

Number of Sites Acquired: 4

Number of Doors: 151

Lead Applicant: Housing Authority of the County of Kern

Development Plan: Scattered site, permanent supportive housing

Milestone, a scattered site acquisition and rehabilitation project in Bakersfield, is comprised of four properties: a 52-room motel (Vagabond Inn), an 88-room motel (Residence Hotel), a 10-unit new construction multifamily property, and a one-bedroom condominium. Altogether, Milestone will provide 150 units of PSH for people at-risk of or experiencing homelessness. The Housing Authority of the County of Kern (HACK) is the developer, owner, and property manager, and the Bakersfield Homeless Center (BHC) provides supportive services. On-site BHC case managers help residents secure food, clothing, health care, identification, benefits, and other services.

The three smaller Milestone sites have provided PSH since January 2021, and posed few challenges. In contrast, the Residence Hotel was an overcrowded residential hotel in extremely poor condition. Knowing that Homekey funding and timelines were insufficient to address safety and renovation needs, HACK planned the rehabilitation across two phases. Phase 1—completed with Homekey funding—took

As one of the four Homekey 1.0 sites in Bakersfield, the former Residence Hotel is being used as interim housing for people experiencing homelessness. HACK has plans to convert the property into PSH in 2022.

Photo Credit: Housing Authority of the County of Kern place over the course of three months and allowed them to convert the smaller three properties into PSH and bring the Residence Hotel site up to code for interim housing. Phase 2 will be a phased, occupied rehabilitation of the Residence Hotel into PSH, expected to begin in February 2022 and funded by a $4.4 million CDBG allocation.

HACK faced unexpected rehabilitation needs, delays, and costs associated with the Residence Inn, primarily stemming from the site's electrical system and the motel's reputation as a site for prostitution, drug use, and other criminal activity. To deter the latter, HACK hired 24/7 armed security during the first six months of operation, an ongoing cost they did not anticipate. Phase 2 conversion was also delayed because the expected source of funding—the state's Multifamily Housing Program—fell through.

Despite the delays and increased budget, Milestone is helping to address an ongoing challenge in Kern County: the lack of studio and one-bedroom units accepting rental assistance vouchers. With the exception of tenants at the Residence Inn—mostly existing tenants eligible to remain at the property—the majority of residents are subsidized through tenant-based vouchers. Long-term, HACK anticipates that rents and tenant-based subsidies will fund the majority of operations, given the limited supply of private market-rate housing for voucher holders. Once Phase 2 is completed and the remaining units are filled, they will need additional resources—for example through CalAIM—to support service provision. HACK does not plan to allocate project-based vouchers to Milestone—preferring to reserve those for new construction—but as the housing authority, they have the flexibility to reconsider project-based vouchers if needed.

Neither HACK nor BHC have had issues identifying tenants to occupy the units, but both expressed that a converted motel is not the best fit for every eligible person, particularly those who would prefer or benefit from a living environment with fewer people and/or more privacy. Additionally, the property—made of primarily studio and one-bedroom units—is not suitable for larger households. Larger families who had been living in the Residence Hotel prior to acquisition were given tenant-based vouchers to assist with relocation, but were not eligible to stay in the newly converted properties.

CASE STUDY: SCOTTS VALLEY BAND OF POMO INDIANS HOMEKEY PROJECT IN LAKEPORT

Homekey 1.0 Award Amount: $1 million

Number of Sites Acquired: 1

Number of Doors: 10

Lead Applicant: Scotts Valley Band of Pomo Indians

Development Plan: Permanent housing

The Lakeport Multifamily Acquisition Project is small relative to most other Homekey sites, but it has a large impact for the Scotts Valley Band of Pomo Indians (SVBPI). Like other Native American tribes, SVBPI confronts severe historical and ongoing marginalization. The tribe reported in 2020 that of its 300 members, 53 were experiencing homelessness and 45 were at risk of homelessness. SVBPI is a landless tribe, but they operate their own federally-funded social services department through their tribal offices in Lakeport, Lake County.

Using Homekey funds, SVBPI purchased a ten-unit apartment complex initially estimated to cost about $120,000/unit. SVBPI's Multifamily Acquisition Project is located near the downtown, schools, and other services. SVBPI worked with a consultant to identify the property initially, and three of the units were already occupied by tribal members. Additional tribal members moved in as other prior residents voluntarily left, totaling seven units occupied by tribal members as of December 2021. The complex does not include on-site services, but residents receive services from the nearby tribal offices. The tribe's housing director also visits regularly and conducts maintenance. Operational support comes from state and federal grants, as well as support from the Enterprise Community Partners. Overall, the project is a significant step forward in SVBPI's larger development vision of a tribal-managed social service system and particularly in its efforts to address homelessness.

The regional structure of prevailing wage requirements was challenging for this project. Although located nearly 130 miles north of San Francisco, Lake County is bound by the same prevailing wage as projects in the Bay Area. Originally estimated to cost less than $1.2 million, including acquisition fees, prevailing wages raised the final cost to $1.4 million. SVBPI pursued subsequent grants—combined with a portion of the tribe's own funds—to cover the unanticipated cost. But they remain concerned about how they will finance the long-term capital needs at the site, since the rental income is only sufficient to cover utilities, insurance, and general maintenance.

HCD's support was crucial for the project's completion and a positive change from the tribe's historical relationship with the state. Tom Jordan, Tribal Administrator and SVBPI's Homekey Manager, described HCD as the first state department that they've worked with that has been responsive and sensitive to tribal involvement and success.[86] SVBPI identified institutional distrust stemming from its fraught relationship with the state as a major barrier for its members. Jordan said that the staff at HCD were on the forefront of breaking down some of these historical barriers, and praised Homekey as a model for working with tribal nations.

Using Homekey funds, the Scotts Valley Band of Pomo Indians acquired a ten-unit apartment building to provide affordable housing for tribal members experiencing or at risk of homelessness.

Photo credit: Beth LaBerge/KQED

CASE STUDY: PROJECT LEGACY IN RIVERSIDE

Homekey 1.0 Award Amount: $4 million

Number of Sites Acquired: 1

Number of Doors: 23

Lead Applicant: Housing Authority of the County of Riverside

Development Plan: Scattered site, transitional housing

Project Legacy plans to provide transitional housing and comprehensive services for people experiencing chronic homelessness with high health needs, particularly LGBTQ people and/or people living with HIV. Supported by the Housing Authority of the County of Riverside, Project Legacy will be operated by TruEvolution, a health services provider focusing on health equity, racial justice, and the needs of LGBTQ people. Project Legacy will provide housing for 49 individuals, initially projecting a cost of $508,000 per unit. The project draws on a diverse range of funds, including Housing Opportunities for People with AIDS (HOPWA) and Homeless Housing, Assistance, and Prevention (HHAP) grants in addition to Homekey.

Project Legacy is not a typical motel/hotel conversion. Instead, Project Legacy is converting a cluster of large homes in downtown Riverside that were previously residential and commercial spaces. Once completed, the site will operate as a residential campus and service hub for TruEvolution, whose current facilities are only two blocks away. Project Legacy is conveniently located near relevant commercial and public services in downtown Riverside. The campus model also maintains a "neighborhood feel," gaining support from Riverside's Downtown Area Neighborhood Alliance and subsequently the area's city council member.

An array of challenges has confronted the

An artist's rendering shows TruEvolution's Project Legacy transitional housing project in Riverside. The project includes two renovated bungalows that will provide housing, as well as a health and justice center.

Photo credit: TruEvolution

project. The properties required more extensive rehabilitation than initially expected, including “commercial-grade upgrades in residential properties,” according to TruEvolution’s CEO Gabriel Maldonado. The prevailing wage, skilled and trained labor, and other compliance requirements have been costly and challenging, particularly without a high-capacity housing development partner to assist TruEvolution. Though Homekey was able to streamline some of the state’s regulatory requirements, it did not exempt Project Legacy from the requirements attached to the project’s other state and federal funding sources. To meet these costs, TruEvolution’s CEO authored a successful assembly bill, supported by Assemblymember Sabrina Cervantes and Assembly Majority Leader Eloise Gómez Reyes, for an additional $10 million from the state’s General Fund.

Additional technical assistance from HCD, both for rehabilitation and selecting potential sites, could be beneficial for future Homekey applicants like Project Legacy. Maldonado described that TruEvolution was attracted to the emphasis on social justice in Homekey’s initial request for proposals. However, he noted that Homekey’s very short timelines and only partial regulatory streamlining may be easier for traditional housing developers to navigate than service- and equity-oriented community organizations like TruEvolution.

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10. California Department of Housing and Community Development. (2020). Notice of Funding Availability: Homekey Program. Retrieved from: https://www.hcd.ca.gov/grants-funding/active-funding/homekey/docs/2020_hcd_homekey-nofa_07-15-2020.pdf.

11. California Department of Housing and Community Development. (2021). Homekey Program, Notice of Funding Availability, Round 2. Retrieved from: https://homekey.hcd.ca.gov/sites/default/files/2021-09/NOFA_Homekey_0.pdf.

12. Homekey 1.0 also allowed for the master leasing of properties and the purchase of affordability covenants on existing residential units. Only about two percent of funds were expended in any of the other eligible categories including master leasing, conversion from nonresidential to residential purposes, purchase of affordable covenants and relocation costs. See: California Department of Housing and Community Development (2021). "Homekey: A Journey Home, 2021 Legislative Report." Retrieved from: https://www.hcd.ca.gov/policy-research/plans-reports/docs/hcd100_homekeyreport_v18.pdf.

13. California Department of Housing and Community Development. (2020). Notice of Funding Availability: Homekey Program. Retrieved from: https://www.hcd.ca.gov/grants-funding/active-funding/homekey/docs/2020_hcd_homekey-nofa_07-15-2020.pdf

14. The costs of providing PSH are largely offset by reductions in the use of other public services, such as emergency rooms or shelter beds. See: Engineering National Academies of Sciences et al. (2018). Cost-Effectiveness of Permanent Supportive Housing, Permanent Supportive Housing: Evaluating the Evidence for Improving Health Outcomes Among People Experiencing Chronic Homelessness. National Academies Press (US), https://www.ncbi.nlm.nih.gov/books/NBK519595/.

15. VI-SPDAT stands for Vulnerability Index - Service Prioritization Decision Assistance Tool. It is one of several different client assessment tools. For more information about the tool, visit https://cchealth.org/h3/coc/pdf/2014-0521-packet-2.pdf.

16. Assembly Bill 83 added a CEQA statutory exemption to Health and Safety Code Section 50675.1.2. For a detailed explanation of the Homekey CEQA exemption, see: https://homekey.hcd.ca.gov/sites/default/files/2021-09/CEQA%20Streamlining%20Question%20and%20Answer.pdf. Projects that receive the CEQA statutory exemption are subject to certain regulatory requirements, including that work on the project pays prevailing wages and uses a "skilled and trained" workforce, that it is solely acquired using public funds, that the affordability covenant stays in place for at least 55 years, and that the conversion does not change the footprint of the existing building by more than 10 percent.

17. For example, HUD provided PHAs statutory and regulatory flexibility to adjust program operations, such as remote voucher issuance, self-certification for income verification, and remote video inspections, to reduce the spread of COVID-19.

18. We differentiate between "doors" and "units," whereby "doors" refer to the number of units at the time of the acquisition before any rehabilitation has taken place and "units" refer to the livable spaces created after the project is completed.

19. Interview with Elizabeth Ben-Ishai, Los Angeles County Homeless Initiative, November 8, 2021.

20. Financing PSH projects generally relies on a combination of multiple funding sources, including those administered by the federal government (e.g., LIHTC), public housing authorities, state housing finance agencies, state block grants, tax- or bond-based funding streams from local initiatives (such as Proposition HHH in Los Angeles and Measure A in Santa Clara), philanthropy, and debt.

21. Interview with Stephen Pelz, Kern County Housing Authority, December 15, 2021.

22. Interview with Michael Duarte, Fresno Housing Authority, January 18, 2022.

23. Interview with Shola Olatoye, Oakland Housing and Community Development Department, November 8, 2021.

24. Interview with Heather Snow, Health and Human Services, Del Norte County, November 30, 2021.

25. Interview with Nevada Merriman, Midpen Housing, December 17, 2021.

26. Interview with Nevada Merriman, Midpen Housing, December 17, 2021.

27. Interview with Fred Sheil, Stocktonians Taking Action to Neutralize Drugs (STAND), December 8, 2021.

28. Interview with Ken Trigueiro, People's Self-Help Housing Corporation, December 1, 2021.

29. Chan Zuckerberg Initiative. "Housing Access in Local Communities." Retrieved from: https://storystudio.sfchronicle.com/chan-zuckerberg-initiative-housing-access/

30. Interview with Heather Snow, Health and Human Services, Del Norte County, November 30, 2021.

31. Interview with Christina Mun, Oakland Housing and Community Development, November 5, 2021.

32. Interview with Susan Friedland, SAHA, November 17, 2021.

33. Total operating expenses usually include administrative costs, real estate taxes, utilities, repairs and maintenance, security insurance, management fees, professional fees, and miscellaneous other expenses.

34. Actual operating expenditures vary based on the population being served and the location and characteristics of the building. They also vary in relation to the strength of the local labor market: hiring security guards, janitors, and property staff will all cost more in higher-cost areas.

35. Public housing authorities participating in HUD's Moving to Work Demonstration Program are given flexibility to increase or waive the 20 percent project-based voucher regulatory cap.

36. Interview with Scott Smith, Housing Authority of San Luis Obispo, December 1, 2021.

37. Interview with Jessica Hoff Berzac, UPholdings, November 15, 2021.

38. Interview with Jessica Hoff Berzac, UPholdings, November 15, 2021.

39. Interview with Shola Olatoye, Oakland Housing and Community Development Department, November 8, 2021.

40. Interview with Jessica Hoff Berzac, Co-Owner and Principal of UPholdings, November 15, 2021.

41. Interviews with Leepi Shimkhada, Los Angeles County Department of Health Services, November 8, 2021 and November 22, 2021.

42. Interview with Scott Smith, Housing Authority of San Luis Obispo, December 1, 2021.

43. Interview with Ken Trigueiro, People's Self-Help Housing Corporation, December 1, 2021.

44. Interview with Chris Hubbard, Hilton Foundation, January 7, 2022.

45. Interview with Scott Smith, Housing Authority of San Luis Obispo, December 1, 2021.

46. Interview with Ann Sewill, Los Angeles Housing Department (LAHD), January 5, 2022.

47. Interview with Gabriel Maldonado, TruEvolution, November 24, 2021.

48. Interview with Christina Mun, Oakland Housing and Community Development, November 5, 2021.

49. Wendy Lewis, El Camino Homeless Organization (ECHO), speaking at the San Luis Obispo Housing Summit, October 6, 2021.

50. Interview with Elizabeth Ben-Ishai, Los Angeles County Homeless Initiative, November 8, 2021.

51. Interview with Harold Dawson, Property Manager, Clifton, November 17, 2021.

52. Interview with Dominique Cohen, MidPen Resident Services Corporation, November 10, 2021

53. Interview with Christina Mun, Oakland Housing and Community Development, November 5, 2021.

54. Interview with Amy Perkins, December 10, 2021.

55. Interview with Amie Fishman, Nonprofit Housing Association of California, December 15, 2021.

56. Interview with Amy Perkins, December 10, 2021.

57. Roy, A., et al. (2020). "Hotel California: Housing the Crisis." UCLA Luskin Institute on Inequality and Democracy. Retrieved from: https://escholarship.org/content/qt0k8932p6/qt0k8932p6_noSplash_5619d4b10747c86e7ad8e46197b6fd44.pdf

58. Interview with Will Triplett, Bakersfield Homeless Center, December 21, 2021.

59. Respondents tended to group resident services into two broad areas. The first set of resident services includes general case management and support for resident on-site activities, such as agency referrals, intermediation with property management and dispute resolution, transportation assistance, and/or educational, vocational or family support classes. The second set of resident services includes behavioral health and substance abuse counseling; these need to be provided by medical professionals and clinicians.

60. Interview with Jennifer Scanlin, Housing Authority of the City of Los Angeles, November 4, 2021.

61. Interview with Jessica Hoff Berzac, Co-Owner and Principal of UPholdings, November 15, 2021.

62. Interviews with Leepi Shimkhada, Los Angeles County Department of Health Services, November 8, 2021 and November 22, 2021.

63. Interview with Jennifer Scanlin, Housing Authority of the City of Los Angeles, November 4, 2021.

64. Interview with Susan Friedland, SAHA, November 17, 2021.

65. Interview with Gabriel Maldonado, TruEvolution, November 24, 2021.

66. Fischer, W. & Gartland, E. (2021). "Housing Vouchers in Economic Recovery Bill Would Sharply Cut Homelessness, Housing Instability." Center on Budget and Policy Priorities. Retrieved from: https://www.cbpp.org/research/housing/housing-vouchers-in-economic-recovery-bill-would-sharply-cut-homelessness-housing.

67. The Faircloth Amendment states that the HUD cannot fund the construction or operation of new public housing units with Capital or Operating Funds if the construction of those units would result in a net increase in the number of units the PHA owned, assisted, or operated as of October 1, 1999.

68. Cohen, J. (2021). "New Public Housing? HUD Has Found a Way." Shelterforce. Retrieved from: https://shelterforce.org/2021/10/08/new-public-housing-hud-has-found-a-way/.

69. For more information on the Massachusetts Rental Voucher Program (MRVP), see https://www.mass.gov/service-details/massachusetts-rental-voucher-program-mrvp.

70. Interview with Ann Sewill, Los Angeles Housing Department (LAHD), January 5, 2022.

71. Interview with Christina Mun, Oakland Housing and Community Development, November 5, 2021.

72. Interview with Nevada Merriman, Midpen Housing, December 17, 2021.

73. Interview with Jennifer Scanlin, Housing Authority of the City of Los Angeles, November 4, 2021.

74. Interview with Elizabeth Ben-Ishai, Los Angeles County Homeless Initiative, November 8, 2021.

75. Interviews with Tina Smith-Booth, Director of Asset Management, Housing Authority of the City of Los Angeles, November 4, 2021, and December 1, 2022.

76. Interview with Jennifer Scanlin, Housing Authority of the City of Los Angeles, November 4, 2021.

77. Interviews with Leepi Shimkhada, Los Angeles County Department of Health Services, November 8, 2021 and November 22, 2021.

78. Interviews with Tina Smith-Booth, Director of Asset Management, Housing Authority of the City of Los Angeles, November 4, 2021, and December 1, 2022.

79. Interviews with Leepi Shimkhada, Los Angeles County Department of Health Services, November 8, 2021 and November 22, 2021.

80. Interview with Amy Perkins, December 10, 2021.

81. Interview with Matt Lust, Los Angeles County Development Authority, November 8, 2021.

82. Wendy Lewis, El Camino Homeless Organization (ECHO), speaking at the San Luis Obispo Housing Summit, October 6, 2021.

83. Interview with Jamie Alamanza, Bay Area Community Services, January 7, 2022.

84. Interview with Michael Duarte, Fresno Housing Authority, January 18, 2022.

85. Interview with Doreen Eley, Fresno Housing Authority, January 18, 2022.

86. Interview with Tom Jordan, SVBPI Tribal Administrator, December 8, 2021.

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The Terner Center formulates bold strategies to house families from all walks of life in vibrant, sustainable, and affordable homes and communities. Our focus is on generating constructive, practical strategies for public policy makers and innovative tools for private sector partners to achieve better results for families and communities.

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