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Publication Date
2023-01-06

CAL-IN-SACRAMENTO FELLOWSHIP PROGRAM SUMMER 2022

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California's Homekey Program: Finding The Keys to Housing

By: Daniel Bui

At the onset of the COVID-19 pandemic, the state of California and several local jurisdictions moved to implement a wide array of public health measures intended to limit the spread of the disease. While coordinating a multipronged public health response, California had to figure out how to approach a fragmented sector of its population—the unhoused. With growing concerns over the transmission of COVID-19 within California's unhoused population, the government moved to introduce a radical policy: Project Roomkey. By leveraging Federal Emergency Management Agency funding, California would go on to provide non-congregate housing for high-risk unhoused individuals exposed to or recovering from COVID-19.[1]

Instituted in July 2020, the policy has garnered attention for its creative use towards providing permanent housing structures through its conversion of hotels, motels, and other appropriate spaces. At a glance, the project has approved 94 projects with 5,911 units created, and 8,264 individuals housed—a measure that has been met with askance considering its limited impact.[2] Nonetheless, policies like Project Homekey have embodied California's commitment to adopting innovative housing solutions despite such criticisms. Given its relatively recent statutory passage under AB No. 83 (Chapter 15, Statutes of 2020), little scholarly ink has been spilled over the project's implementation and larger implications to date. Thus, this research analysis seeks to evaluate Project Homekey through various standards including: (1) the process of applying for project funds (i.e the ease/efficiency when applying); (2) policy gaps/issues within the project planning/implementation process; and finally, (3) potential policy recommendations for housing policies that seek to replicate/build upon Project Homekey.

Methodology

This research project interviewed representatives across three jurisdictions: the City of Berkeley's Housing and Community Services Division, the City of San Jose's Housing Department, and the City of Santa Barbara Grand Jury.[3] Additionally, stakeholders including Berkeley City Councilmember Rigel Robinson's Office were included in the interview process for holistic review. These representatives consisted of a legislative liaison, a development officer, and a Manager of Housing and Community Services. Moreover, numerous news and research articles, op-eds, and state public reports were reviewed.

Limitations

It is important to note that at the time of this research, interviews were conducted primarily with regard to Project Homekey during its first stage (frequently referred to as Project Homekey Round 1). However, given Homekey's resounding success in its initial stages, a second round of funding was proposed and implemented under California's 2021-22 budget, amounting to a massive 1.45 billion dollars in total funding since its inception. As a result, this study avoids drawing strong conclusions from the relatively small variations in recorded data. Furthermore, the quotes taken from the interviews conducted have been edited and condensed for length and clarity.

Observations

[1] https://www.cdss.ca.gov/inforesources/cdss-programs/housing-programs/project-roomkey
[2] https://www.hcd.ca.gov/policy-research/plans-reports/docs/hcd100_homekeyreport_v18.pdf
[3] http://sbcgj.org/2021/KeystoHousing.pdf

In examining the keys to housing, Project Homekey—to its fault and benefit—fixed two primary obstacles that obfuscated housing development: the cost of the housing construction, and the time it takes to develop. While the average cost of a low-income housing tax credit deal (LIHTC) has risen throughout the years, the price per unit for a LIHTC plan in California has routinely reached six figures.[4] To Isaac Orona, San Jose's Development Officer, such figures were unsurprising. "The cost for a low-income tax credit deal typically costs around $800,000 per unit, but at times, they can reach up to $1 million… now there's nothing affordable about that." Moreover, the lead time that it takes to construct virtually anything in California can, and often does take years due to California's rigorous regulatory processes. For example, many housing development projects must go through rigorous California Environmental Quality Act (CEQA) reviews to report and mitigate potentially adverse environmental effects. Because CEQA is a self-serving statute, developers can get sued if they aren't thorough with their reviews, as the bar for litigation is low. Thus, the process to establish a satisfactory environmental impact report (EIR) needed to begin construction can take years to complete. The pace of housing development has not aligned with the state's population growth rate, which has ballooned out of proportion. At present, California's housing shortfall has reached a startling 3-4 million units.[5]

Cue in Project Homekey. With a budget of 1.45 billion dollars in funding and a relatively short time frame to match, Project Homekey imposed tight time restrictions that pushed local jurisdictions to act quickly. For jurisdictions applying for Project Homekey funds, the application process was a fast turnaround—around nine months for most projects; or alternatively, five months for projects that sought bonus funding. "It was definitely a short deadline," said Angie Chen, Legislative Aide to Berkeley City Councilmember Rigel Robinson, "I know that we had to expedite a lot of our processes that we would've normally gone through. Unfortunately, we couldn't solicit all the responses and feedback we would have liked under regular circumstances." However, for Officer Orona, the process was seamless. "[Project Homekey] not only provided the financial capital to acquire these hotels but from a policy perspective, it streamlined CEQA to fit the project timeline. That's huge because essentially we're cutting down a couple years of analysis and costs." And for the City of San Jose, it worked. "In just four months, we renovated a site with 76 new units for affordable housing. The Notice of Funding Availability (NOFA) came out in July, we applied in August, the state awarded us in September, and we bought the property in October—all with a price tag of only $179,000 a unit. We were really building units upon acquisition" remarked Orona. Similarly, a report from the Santa Barbara Grand Jury concurred. Within a short time frame of just over 5 months, jurisdictions were tasked with identifying properties, establishing remodeling plans, contacting partnerships, and having a final proposal in place by August 13—just five weeks after the announcement of Homekey funding (June 30, 2020).

While Project Homekey did well in acquiring commercial sites for conversion, there were some problems—all of which were tied to funding. Take federal funding for example, despite the state's extraordinary effort to solve homelessness, funding was often limited and disparate across local jurisdictions. Manager of Housing and Community Services Margot Ernst noted that "while the State built in many waivers to allow these projects to move forward quickly, [many] of those same waivers didn't apply to federal funding. As a result, it limits our funding options for the City's (Berkeley) contribution." In Santa Barbara, the Grand Jury found that "local officials 'scoured the universe' looking for available

[4] https://www.latimes.com/homeless-housing/story/2022-06-20/california-affordable-housing-cost-1-million-apartment

[5] Dillon, Liam (April 17, 2018). "California lawmakers killed one of the biggest housing bills in the country". Los Angeles Times. Archived from the original on April 23, 2018. Retrieved April 23, 2018. Wiener said the bill would help the state reduce a shortage of homes he has estimated at 4 million.

properties that were willing to sell to the County, yet could find only one pre-owned possibility in North or South County for the Homekey project" (SB Grand Jury 6). The reason? Limited available real estate, high property values, and expensive rents were found to be some of the largest impediments to finding potential project sites (SB Grand Jury 6).

However, while interviewees representing the city of Berkeley and Santa Barbara differed in responses, one issue was universal across all jurisdictions: wrap-around service funding. There were two primary components to Project Homekey's NOFA agreement. The first was the initial funding capital to acquire properties available for conversion; the second was a 24-month operating subsidy that would cover the first two years of expenses for property operations once conversions were complete. While local jurisdictions praised the state for its initial funding to acquire properties, the second component of Project Homekey proved to be more problematic. "Project Homekey did well with the first part. It's pretty easy to apply for funding and then boom, acquire the property. Now what's the problem is our operating subsidy… It's really expensive to operate wrap-around services. You have to hire a property management group, you have to support supportive in-house services like cleaners and cooks, etc. On average, that's about $20,000 a year, per unit per uptake. So if you look at 100 units… do the math, that's $2 million per year for just a 100 unit property" described Development Officer Orona. Furthermore as Officer Orona noted, "on top of that, with Homekey, we're targeting a segment of this population that simply cannot afford to pay." Thus, it becomes apparent that without a clear revenue source, the onus to pay for upkeep lies on local jurisdictions who often lack the funding mechanisms they need to support such initiatives. "It is certainly unsustainable," Legislative Aide Chen concurred, "our staff has projected that our funding will only run for about eight years before depletion, so everyone is trying to find a solution in the future."

Solutions

At present, each of the representatives interviewed expressed confidence in their jurisdiction's ability to continue funding. With limited state and federal funding, each of the cities has already begun to look at alternative revenue options. For example, the city of Berkeley has largely relied on Measure P: a measure which Berkeley voters approved in 2018, and utilizes property transfer tax funds to fund their Project Homekey site. In San Jose, officials and staff partnered with entities like the Housing Authority, which had access to project-based vouchers that can help offset some of the operating costs. As for Santa Barbara, the Grand Jury was hopeful that the county can extend Memorandums of Understanding to its cities to facilitate closer regional cooperation and coordination.

Moreover, as San Jose has targeted, Project Homekey has provided a unique opportunity for local jurisdictions to buy out not only property but also land-use designation rights as well. Years along the line, local jurisdictions may plan to "landbank" their Homekey sites, with the hopes that such sites will yield opportunities to build more forms of permanent housing in the future. Despite limited federal funding, local governments remain hopeful that the state will be able to secure greater funding for their Homekey sites. Especially with the state's discretionary surplus of $49 billion in budgetary funds, local advocacy for greater state funding will continue to grow in the coming years.[6]

While it's uncertain whether Project Homekey will remain a permanent fixture in housing policy, every respondent applauded its outcomes. In particular, Officer Orona left with this, "It's true that there are gaps in Homekey—funding being the largest issue now going forward. But we knew that when we applied. After all, you must admit that this program posed a unique opportunity to house our homeless during the pandemic, and for that reason, we took it."

[6] https://calmatters.org/politics/2022/06/california-budget-surplus-differences/