



**Department:** Community Development  
**Cost Center:** 4008  
**For Agenda of:** 4/19/2022  
**Placement:** Consent  
**Estimated Time:** N/A

**FROM:** Michael Codron, Community Development Director  
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**SUBJECT:** ALLOCATION OF AFFORDABLE HOUSING FUNDS TO THE HOUSING AUTHORITY OF SAN LUIS OBISPO (HASLO) FOR THE ANDERSON HOTEL (\$1.7M) AND TO TRANSITIONS MENTAL HEALTH ASSOCIATION FOR PALM STREET STUDIOS (\$300K)

## RECOMMENDATION

Adopt a Resolution entitled "A Resolution of the City Council of the City of San Luis Obispo, California, approving Affordable Housing Fund Awards to the Housing Authority of San Luis Obispo for the Anderson Inn in the amount of \$1,700,000 and Transitions Mental Health Association for the Palm Street Studios in the amount of \$300,000" allocating a total of \$2,000,000 of State and Local Fiscal Recovery funds to be appropriated for the purpose of funding eligible affordable housing projects in the 2022-23 Supplemental Budget, as follows:

- 1) Approve an allocation of Affordable Housing Funds in the amount of \$1,700,000 to assist the Housing Authority of San Luis Obispo (HASLO) with the acquisition and rehabilitation of the Anderson Hotel (68 units for extremely low-income, special needs people); and
- 2) Approve an allocation of Affordable Housing Funds in the amount of \$300,000 to assist Transitions Mental Health Association (TMHA) with the property acquisition and rehabilitation for 8 supportive housing apartments that will be dedicated to low-income persons, located at 1118 Palm Street.

## DISCUSSION

### Background

The congressional American Rescue Plan Act (ARPA) approved \$350 billion for state, local, territorial, and Tribal governments in form of the Coronavirus State and Local Fiscal Recovery Funds. This historic bill provides economic stimulus funding to the City of San Luis Obispo to reimburse lost revenue and help support economic recovery efforts. An initial \$8.9 million was programmed into the 2021-23 Supplemental budget and it has since been increased to \$13.5 million.

At the February 15, 2022, City Council meeting, the Council directed staff to prioritize ARPA funding towards housing and homelessness, and at the March 1, 2022, City Council meeting, the Council directed staff to return at the 2022-2023 Supplemental Budget to appropriate \$2 million towards affordable housing that targets extremely low and very low income and/or homeless persons most impacted by COVID-19 and allocated through the City's Affordable Housing Fund<sup>1</sup>. Lastly, unrelated and yet noteworthy, the City Council directed \$1 million to the Infrastructure Investment Fund; and \$100,000 to augment the Human Relations Commission annual Grants in Aid (GIA) cycle one time to further support health and human services programs or projects. All of this is subject to final adoption of the Supplemental Budget which is scheduled for a public hearing for adoption on June 7, 2022.

### **Overview of Requests**

The Housing Authority of San Luis Obispo (HASLO) is requesting \$1,700,000 to assist with the acquisition and preservation of the Anderson Hotel as affordable housing (Attachment B). HASLO has leased the property and has continued to work with the new private property owner who has indicated they wish to sell the property.

The City's 6<sup>th</sup> Cycle Housing Element has identified the property as at risk of converting to another use, thus losing 68 units for the extremely low-income, special needs demographic that historically has occupied the hotel. This population has been significantly impacted by COVID-19 and is at risk of homelessness should permanent affordability not be secured.

The City Affordable Housing Funds will leverage state and federal funds including a \$2 million Congressional Community Project sponsored by Congressman Carbajal, and ARPA funds allocated by the county. HASLO will commit 68 project-based Section 8 vouchers to the property, providing \$700,000 in annual rent subsidies for residents at the Anderson Hotel, and ensuring that residents do not pay more than 30% of their actual income for rent, including utilities.

Transitions-Mental Health Association (TMHA) is requesting \$300,000 for gap funding for the acquisition and rehabilitation of a structure to convert to six supportive housing apartments, add two separate on-bedroom accessory dwelling units, and one small office (Attachment C). The project is utilizing funding from the No Place Like Home grant and the San Luis Obispo's *Housing NOW* program that THMA launched in 2014 (called 50Now) with the Housing Authority of San Luis Obispo (HASLO) to identify the 50 most vulnerable homeless individuals in the County and place them in permanent housing, and provide them with behavioral health treatment and services. The property will be deed-restricted affordable for a minimum of 55 years, available to TMHA clients who are low income. COVID-19 has impacted the supply of housing and this housing will enable the City to support a vulnerable population in perpetuity.

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<sup>1</sup> Council agenda report March 1, 2022

<https://opengov.slocity.org/WebLink/DocView.aspx?id=156816&dbid=0&repo=CityClerk>

### Policy Context

Goal number 1 in the City's Housing Element (HE) is Safety, and Program 1.7 states *"Continue to support local and regional solutions to homelessness by funding supportive programs services and housing solutions."* The Anderson Hotel is listed and specifically discussed in Chapter Five of the Housing Element as one of three housing developments that is at risk of losing affordability restrictions and converting to market rate.

Additionally, providing financial assistance to affordable housing projects is a theme supported throughout the HE. HE Goal 2 is Affordability, which specifically states *"Accommodate affordable housing production that helps meet the City's quantified objectives."* HE Program 2.9 states *"Assist with the issuance of tax-exempt bonds, tax credit financing, loan underwriting or other financial tools to help develop or preserve at least 20 affordable units annually through various programs."*

Goal 3 in the HE is Housing Conservation, to Conserve existing housing and prevent the loss of safe housing and the displacement of current occupants, and Policies 3.2, 3.3, 3.5 and Programs 3.8 and 3.9 respectively state:

- *"Discourage the removal or replacement of housing affordable to extremely low, very-low, low- and moderate income households, and avoid permit approvals, private development, municipal actions or public projects that remove or adversely impact such housing unless such actions are necessary to achieve General Plan objectives and: (1) it can be demonstrated that rehabilitation of lower-cost units at risk of replacement is financially or physically infeasible, or (2) an equivalent number of new units comparable or better in affordability and amenities to those being replaced is provided, or (3) the project will correct substandard, blighted or unsafe housing; and (4) removal or replacement will not adversely affect housing which is already designated, or is determined to qualify for designation as a historic resource"*.
- *"Encourage the construction, preservation, rehabilitation or expansion of residential hotels, group homes, integrated community apartments, and single-room occupancy dwellings;"*
- *"Encourage and support creative strategies for the rehabilitation and adaptation and reuse of residential, commercial, and industrial structures for housing;"* and
- *"Continue to monitor and track affordable housing units at-risk of being converted to market rate housing annually and verify that tenants are properly noticed and aware of their rights. Provide resources to support the Housing Authority, and local housing agencies, purchase and manage at-risk units."*
- *"Work annually with non-profit organizations, faith-based organizations, or the Housing Authority of the City of San Luis Obispo to encourage rehabilitation of residential, commercial, or industrial buildings to expand extremely low, very-low, low or moderate income rental housing opportunities."*

This request of HASLO and TMHA to increase housing affordability for low-income persons is in alignment with these goals and programs.

## AWARD CRITERIA

In making its recommendations to City Council for how Affordable Housing funds should be allocated for affordable or special needs housing projects, staff used adopted criteria for the Affordable Housing Fund program (Attachment D), including eligibility, need, suitability, timing, financial effectiveness, and readiness. The following is an analysis of the request relative to the criteria.

**Eligibility.** *Use of the AHF for the requested purpose will increase or improve the City's affordable housing inventory and promote General Plan policies regarding housing, as follows:*

Both HASLO's and TMHA's projects are eligible for Affordable Housing Funds because it increases the City's affordable housing inventory and implements several General Plan policies regarding housing. The projects will increase the supply of affordable housing for sixty-eight and eight residents or families respectively, who are within the extremely low, very low, or low-income range.

**Need.** *There exists a substantial or overarching need for the type of units to be assisted, as follows:*

HASLO's longest waiting list in terms of unit types is for 1-bedroom or studio units. The Anderson Hotel consists of all 1-bedroom and studio apartments that are identified as at risk for being lost in the City's affordable housing inventory.

TMHA houses over 250 clients annually with the goal of creating supported, permanent housing for adults with mental illness. Once opened, Palm Street Studios will provide eight housing units to this population. TMHA receives over 300 applications for their housing units, which demonstrates a clear continued need for this type of supported housing.

**Suitability.** *The projects to be assisted are appropriate for location both in terms of land use and design, as follows:*

Both proposed housing acquisitions has been chosen for close proximity to TMHA and County services. The Anderson Hotel is in the middle of downtown SLO. Palm Street Studios is .7 miles from Hope House Wellness Center on 1306 Nipomo Street, one mile away from TMHA headquarters on High Street, 1.1 miles from County Behavioral Health on Johnson Avenue, and 2.4 miles from Growing Grounds Nursery on Orcutt Road. Both projects are near the Ludwick Community Center and Santa Rosa Street, with easy access to rapid transit.

**Timing.** *The projects would better serve the City's needs if it were built immediately as opposed to later, as follows:*

Both projects provide immediate housing. HASLO units include 68 Section 8 voucher eligible units for clients at or below 60% of the Area Median Income and long-term affordability would be ensured through recording of a new 55-year deed restriction.

TMHA received around 300 applications for the 34 units under construction in the Bishop Street Studios project, meaning there are approximately 266 community members in need of safe, supportive housing. TMHA knows that stable housing and recovery go hand-in-hand. Palm Street Studios will bring TMHA a few steps closer to providing housing for the hundreds of San Luis Obispo residents living with mental health diagnoses.

**Financial Effectiveness.** *But for the requested assistance, the project would not be economically feasible; or AHF funding "leverages" significant additional funding from other sources, as follows:*

Funding for the Anderson Hotel would constitute 4.6% of project funding, equivalent to \$25,000 per unit (68 units). The project leverages direct congressional appropriation (\$2 million), County ARPA funds (\$2 million) and low-income housing tax credits (\$26.4 million).

TMHA is currently in escrow for a purchase price of \$1,185,000. The cost to convert the house to six (6) one-bedroom units and two (2) one-bedroom ADUs is approximately \$1,815,000. TMHA is applying for \$2.03M in No Place Like Home grant funding from the State of California and they have been successful in the past two years with an award of \$1.49 million to purchase six units in the City of San Luis Obispo. While the numbers continue to get clearer, and relocation fees are an unbudgeted expense of \$60,000, THMA anticipates the financial gap will be \$865,000. TMHA will raise a portion of this through a private capital campaign, and requests \$300,000 in housing funds from the City of San Luis Obispo.

**Readiness.** *The project has all necessary City approvals and is ready to proceed, as follows:*

Both the Anderson Hotel and the Palm Street Studios projects do not need to obtain any City discretionary approvals.

Award of the City will enable HASLO to proceed with a highly competitive application for state low-income tax credits in June 2022 and position the project to move forward with acquisition within the year.

Upon award of the City, THMA plans to immediately close escrow on the property.

HASLO and THMA will then make improvements to the units as needed and submit any plans to the City Building division as necessary

**Public Engagement**

As this is a request for Affordable Housing Funds, no public engagement is required.

**ENVIRONMENTAL REVIEW**

The California Environmental Quality Act does not apply to the recommended actions in this report, because the action does not constitute a “Project” under CEQA Guidelines Sec. 15378. It is speculative during this funding phase to fully analyze the potential environmental impacts of the rehabilitation of each projects until full building plans are submitted.

**FISCAL IMPACT**

Budgeted: Yes

Budget Year: 2021-2022

Funding Identified: Yes

**Fiscal Analysis:**

<b>Funding Sources</b>	<b>Total Budget Available</b>	<b>Current Funding Request</b>	<b>Remaining Balance</b>	<b>Annual Ongoing Cost</b>
General Fund	\$	\$	\$	\$
State				
Federal				
Fees				
Other: AHF	\$2,000,000	\$2,000,000	0	0
<b>Total</b>	<b>\$2,000,000</b>	<b>\$2,000,000</b>	<b>\$0</b>	<b>0</b>

This action will commit \$2 million from the City’s allocation of the State and Local Fiscal Recovery Fund in accordance with the U.S. Treasury Final Rule for American Rescue Plan Act funding use.

## ALTERNATIVES

1. ***Do not authorize AHF awards for the proposed projects.*** This action is not recommended because the project directly aligns with the Major City Goal for Housing and Homelessness and is consistent with the Housing Element of the General Plan.
2. ***Approve AHA awards for different amounts.*** The City Council can approve an award for a different amount other than the recommendation. This is not recommended as the projects have carefully considered their need for assistance and the amounts requested reflect what is needed for successful financing of the projects.
3. ***Continue consideration of the proposed awards.*** The City Council can direct staff to return with additional information regarding the funding request so that a final decision on the award amount can be made. Staff does not recommend this action because this delay in time would not allow for HASLO or THMA to close gap funding needed to close escrow on the respective projects and properties.

## ATTACHMENTS

- A - Draft Resolution adopting allocation of Affordable Housing Funds to HASLO for the Anderson Hotel and THMA for Palm Street Studios
- B - Request from HASLO for the Anderson Hotel
- C - Request from THMA for Palm Street Studios
- D - Resolution 9263 (2001 Series) Award Criteria for Affordable Housing Funds