California Housing Partnership
California's Experts on Affordable Housing Finance, Advocacy & Policy

Keeping California's Homeless Housed: A Proposal to Provide Long-Term Homes for Those Coming Out of COVID-19 Temporary Shelter

Need and Opportunity: In response to the COVID-19 crisis, the State of California is now spending tens of millions putting homeless individuals and families into hotel rooms and other short-term housing. But California needs longer-term homes for these formerly homeless households as well as homes for very low-income families no longer able to pay rent and in danger of becoming homeless once the eviction moratorium expires. At the same time, the market value of motels, hotels, SROs and apartment properties should be decreasing as the real estate market factors in the effects of lost tourism and incomes due to COVID-19 related impacts.

Step 1: Expand and Refocus the Golden State Acquisition Fund

The Golden State Acquisition Fund (GSAF) was authorized by Prop 1C of 2006 to finance the acquisition of affordable housing properties. In late 2012, GSAF was seeded with $23 million from Proposition 1C's Affordable Housing Innovation Fund to serve as a top loss for the consortium of eight non-profit CDFI lenders who have leveraged private funds (which require a return on investment) on at least a 3:1 basis, resulting in the financing at low interest rates of 91 acquisitions totaling nearly 7,733 affordable homes to date.

The state could turbocharge this successful fund with ***an additional $500 million dedicated for the purchase of hotels, motels and apartment buildings*** into which it either has already supported the placement of homeless households during the pandemic or would consider placing them going forward. Funding would have to be sufficient to cover the costs of any required life and safety improvements and capitalizing operating and replacement reserves. To the extent purchase opportunities exist, GSAF should ensure a reasonable geographic distribution of awards.

Because the HCD contract is already in place and the non-profit lender consortium can act nimbly, this program could be implemented quickly. In order to maximize the ability of the purchasers to lock in long-term affordability, it would be advisable for to amend the contract to allow maximum loan terms of up to 10 years, as opposed to the current five years, to match the minimum hold period necessary to make properties eligible for refinancing with Low Income Housing Tax Credits and other sources (see Step 3). It would also be advisable to override the statutory requirement and amend the contract to replace the 3:1 leverage requirement with a 1:3 leverage requirement, significantly reducing interest rates, buyer debt service costs, and ultimately the size of on-going state operating subsidies (see Step 2).

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This change also acknowledges the difficulty GSAF will have in leveraging a massive state expansion of capital in the necessarily short time frame.

Step 2: Ensure Adequate Funding of Operating Costs and Services

While mission-driven affordable housing organizations who purchase these properties may be able to cover basic operating and debt service expenses by charging rents at 60-80% Area Median Income (and qualifying for the Welfare Property Tax Exemption), they cannot afford to charge rents low enough to house the formerly homeless (or even ELI or VLI households) directly or to provide appropriate services. The state or local governments would need to guaranty funding to offset operating and service costs, ideally on a multi-year basis. Luckily, the state has a successful model of how such a program can work in Los Angeles' Flexible Housing Subsidy Program (FHSP), which provides monthly subsidies to pay rent and provide services. Alternately, the affordable housing organizations could enter into master leases for all or some portion of the units with homeless service organizations who would take responsibility for placing tenants and providing Intensive Case Management Services. These homeless service organizations would need the same access to funding to support operating and service costs at the properties.

While some local governments will be able to piece together a variety of local and state funds as Los Angeles and San Francisco have done successfully, most jurisdictions will need additional help over the longer term to make these subsidy payments. AB 1905 (Chiu) could provide a funding source for these on-going subsidies and also support the GSAF expansion in Step 1.

Step 3: Long-term financing

Over time, most owners would seek Low-Income Housing Tax Credits to fund the conversion of the hotels/motels to permanent housing units. TCAC and CDLAC could create a set aside or competitive advantage to prioritize and speed up such projects, though this would come at the expense of new construction projects. Generally, developments serving the homeless utilize 9% tax credits. To make them possible as 4% tax credit projects, additional gap financing will be required. NPLH, VHHP, and Housing for a Healthy California are geared to permanent supportive housing and will have some funding left for this purpose. HCD can issue stand-alone NOFAs for homeless-serving housing under MHP as well, though this too would come at the expense of other affordable housing developments. The more difficult issue is the fact that projects with a high percentage of permanent supportive housing or extremely low-income units require operating subsidies as the operating and service costs alone exceed rents. Absent an expansion of the federal Housing Choice Voucher program, the state's best option would be to allow MHP and VHHP to fund capitalized operating subsidy reserves (COSRs) like NPLH and HHC do. Obviously, additional resources would speed up the conversions and reduce the effect on other project types.

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