



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: City Manager

Meeting Date: April 7, 2025

Report #:2503-4306

TITLE

Approval of a Revised Revenue Agreement with the County of Santa Clara to Enable the County to Execute an Operating Agreement with LifeMoves for Operations of Palo Alto Homekey

RECOMMENDATION

Staff recommends that the City Council approve and authorize the City Manager or their designee to execute the attached revised Revenue Agreement with the County of Santa Clara (County), authorizing the City to provide funding in the amount of \$7 million over a seven-year period to the County. The County will execute an operating agreement, including the \$7 million, with LifeMoves for interim housing operations at the Palo Alto Homekey interim housing site at 1237 San Antonio Road.

EXECUTIVE SUMMARY

Approval of the Revenue Agreement will allow the County to manage pass-through funding from the City for operations at the Palo Alto Homekey interim housing located at 1237 San Antonio Road. While the County will enter an operating agreement with LifeMoves for operations, the Revenue Agreement contains performance measures and reporting requirements for operations.

BACKGROUND

Project Homekey is an initiative of the California Department of Housing and Community Development (HCD) which aims to rapidly address homelessness by supporting local governments in creating temporary or permanent housing for individuals experiencing or at risk of homelessness. The program, launched in response to the COVID-19 pandemic, provides regulatory waivers and enforces strict deadlines to facilitate swift housing solutions. In 2021, the City of Palo Alto partnered with LifeMoves to apply for Homekey funding, securing an award in August 2022 for a modular interim housing facility with on-site support services. The project drew lessons from the City of Mountain View's similar Homekey project, incorporating improvements like en suite restrooms.

In November 2022, rising costs due to economic instability, inflation, and supply chain issues led the City and LifeMoves to reassess the project's scope. LifeMoves hired a new construction firm, Devcon, which identified cost-saving opportunities but impacted the timeline. Cost-saving adjustments included repositioning buildings, creating separate site entrances, and relocating infrastructure. The City Council approved a lease agreement¹ with LifeMoves and a Revenue Agreement with Santa Clara County in 2023, along with funding to close the capital gap and reinstate certain project elements. Later in August 2023, the City also approved an agreement for utility services with the City of Mountain View to connect the Palo Alto Homekey project to its water and sewer systems.² In January 2025, staff provided City Council an update on the project status, noting delays relating to modular production.³

ANALYSIS

Although the City Council approved a Revenue Agreement with the County for the project in 2023, the County had not yet approved the agreement and thus the agreement was never fully executed. In the interim, staff further reviewed the initial agreement and found that the agreement's standard payment terms were more suited to a bill-for-services contract. This is the first time the City has entered into an arrangement where funding is remitted to another entity, the County, which then disburses it (to LifeMoves) on a bill-for-services basis. As a result, new language had to be developed to better reflect this structure, including transitioning from a reimbursement basis to a remittance basis.

Additionally, in the revised agreement, a payment schedule was created and new reporting requirements were introduced (such as requiring a summary budget and actual expenditure reports for operations and maintenance costs). The attached Revised Revenue Agreement represents a revision to the original Revenue Agreement since the original Revenue Agreement was not yet fully executed. City and County staff met and corresponded regularly to discuss and develop the resulting revised agreement for \$7 million of pass-through funding for Palo Alto Homekey operations for an initial term of seven (7) years, subject to approval by the County Board of Supervisors. The County has the (revised) Revenue Agreement scheduled on the April 8 agenda for the Board of Supervisors' consideration. The County continues to discuss, with both the City and LifeMoves, the Service/Operations Agreement for LifeMoves to operate Palo Alto Homekey, with plans to finalize the agreement in alignment with the beginning of site operations. The below table summarizes key Revised Revenue Agreement terms.

¹ City Council Staff Report, June 12, 2023

<https://cityofpaloalto.primegov.com/meetings/ItemWithTemplateType?id=2481&meetingTemplateType=2>

² City Council Staff Report, August 21, 2023

<https://cityofpaloalto.primegov.com/meetings/ItemWithTemplateType?id=2894&meetingTemplateType=2>

³ City Council Information Item, January 13, 2025

<https://cityofpaloalto.primegov.com/meetings/ItemWithTemplateType?id=6678&meetingTemplateType=2&compiledMeetingDocumentId=12765>

Table 1: Revised Revenue Agreement Key Terms	
Agreement Section	Summary of Key Terms
1. Term	April 7, 2025 through December 31, 2033
2. Roles and Responsibilities	<ul style="list-style-type: none"> City will designate a Program Manager to act as a liaison with the County, assist in program development and improvement to meet goals, and review and process invoices and disburse funds to the County. City will remit payment to the County annually for expenses associated with the Agreement for a total maximum amount of \$7,000,000 (equates to approximately \$1,000,000 annually for each operational year). County will designate a Program Manager to serve as a liaison with the City, lead program development (and improvement, if needed) to meet goals, and lead coordination with stakeholders. County will provide or subcontract program services. Both parties will together establish success and outcome measures, meet regularly to discuss performance and progress, and jointly monitor program expenses and outcomes.
<i>Exhibit A: Program Specifics</i>	
1. Program Description	“Program” is Palo Alto Homekey, a modular interim housing facility with onsite support services, which will provide privacy, security, mental health support, recovery programs, employment services, financial literacy, and children’s programs. The facility includes nightly sleeping accommodations, meals, en suite bathrooms, showers, laundry services, internet access, and other basic need services. Case management services are provided to all clients, focused to support housing placement and long-term housing retention.
2. Target Population	Unsheltered homeless households, with preference given to households who reside in or have a connection to Palo Alto.
3. Number of Households	Single units are intended to serve individuals and family units are intended to serve families with the average family size being a family of 3. The project will have 88 units whose door configuration equates to 108 units per HCD definition. ⁴
4. Program Funding Amount	\$7,000,000 (equates to approximately \$1,000,000 annually for seven years)
5. Reporting Requirements	<p>County will provide quarterly reports to the City that include information on:</p> <ul style="list-style-type: none"> Number of clients served (total and City-connected), Exit destinations (total and City-connected, number per period by exit category), Enrollments of City-connected clients (total and new enrollments), Average time in shelter, Returns to homelessness (within 12 months and within 2 years), and Summary budget and actual report of operation and maintenance costs spent using City funding. Categories and format to be agreed upon.

⁴ The California Department of Housing and Community Development (HCD) defines a unit as a room with an external facing door and it differs from the California Building Code. For the Palo Alto Homekey project, the 108 units include 84 single-bedrooms, 20 two-bedrooms, and 4 three-bedrooms.

FISCAL/RESOURCE IMPACT

The \$7 million (equates to approximately \$1 million annually) was allocated as part of the FY 2023 Adopted Operating Budget⁵ followed by the June 12, 2023⁶ City Council approval of the original Revenue Agreement. No additional funding is requested with this proposed Revised Revenue Agreement; however, the funding timeline was updated from the original Revenue Agreement as part of the FY 2025 Adopted Operating Budget⁷ for funding to start in FY 2025 rather than FY 2023. As noted in prior reports, the Palo Alto Homekey project is funded through \$26.6 million in HCD Project Homekey funds, combined with City and County funding, and generous local donations, including from the Palo Alto Community Fund, Sobrato Philanthropies, and The Peery Foundation. City contributions include the land for the project, staff time, \$7 million towards operations, and \$4.5 million towards capital costs. Additionally, City Council approved use of \$185,000 in federal Housing and Urban Development (HUD) Community Development Block Grant (CDBG) funds towards a recreation area for Palo Alto Homekey.⁸ The operations funding for Palo Alto Homekey come from a variety of sources including LifeMoves, HCD (part of the grant funding), the County, and the City. LifeMoves, as operator through a Service/Operations Agreement with the County, will optimize all funding sources with awareness of the funding deadlines on each funding source.

STAKEHOLDER ENGAGEMENT

Stakeholder engagement includes regular and as-needed meetings between partners (i.e., Santa Clara County Office of Supportive Housing, LifeMoves). Staff and LifeMoves will plan press events to coincide with significant milestones—for example, when the modular units for Palo Alto Homekey are being stacked/set and at the opening of the facility.

ENVIRONMENTAL REVIEW

Projects funded by the Project Homekey program are exempt from the requirements of the California Environmental Quality Act through state laws, including but not limited to AB 140 (2021) and AB 2553 (2020). To the extent any of the actions contemplated by the City Council in relation to this project are not covered by these statutory exemptions, they are exempt

⁵ FY 2023 Adopted Operating Budget (page 503)

https://www.cityofpaloalto.org/files/assets/public/v/1/administrative-services/city-budgets/fy-2023-city-budget/adopted-fy23/operating-budget_final-4.pdf

⁶ City Council Staff Report, June 12, 2023

<https://cityofpaloalto.primegov.com/meetings/ItemWithTemplateType?id=2481&meetingTemplateType=2>

⁷ FY 2025 Adopted Operating Budget (page 520) chrome-

https://www.cityofpaloalto.org/files/assets/public/v/1/administrative-services/city-budgets/fy-2025-city-budget/adopted/palo-alto-adopted-operating-budget-book_final2.pdf

⁸ City Council Staff Report, June 22, 2024

<https://cityofpaloalto.primegov.com/meetings/ItemWithTemplateType?id=5122&meetingTemplateType=2&compiledMeetingDocumentId=10522>

pursuant to CEQA Guidelines Section 15269 as actions to mitigate an emergency related to the unhoused population in Palo Alto.

ATTACHMENTS

Attachment A: Revised Revenue Agreement Between the County of Santa Clara and the City of Palo Alto

APPROVED BY:

Ed Shikada, City Manager