



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Planning and Development Services

Meeting Date: November 27, 2023

Report #:2310-2167

TITLE

Approval of Budget Amendments in the Residential Housing In-Lieu Fund and the General Fund to Reflect Prior City Council Funding Commitments for the Development of 525 East Charleston Road/Mitchell Park Place and Authorization of 525 East Charleston Road/Mitchell Park Place Loan Preparation and Execution

RECOMMENDATION

Staff recommends that City Council undertake the following actions to reflect prior funding commitments to 525 East Charleston Road/Mitchell Park Place:

1. Amend the Fiscal Year 2024 Budget Appropriation Ordinance (Requires 2/3 Vote) for:
 - a. The Residential Housing In Lieu Fund (Fund 233) by:
 - i. Increasing Transfers-Out to the General Fund by \$1,500,000; and
 - ii. Decreasing the Fund Balance by \$1,500,000;
 - b. The Permanent Local Housing Trust Fund (Fund 252) by:
 - i. Increasing Grants and Subsidies in the amount of \$1,500,000; and
 - ii. Increasing the Transfer-Out to the General Fund by \$1,500,000;
 - c. The General Fund Planning and Developments Services Department by:
 - i. Increasing the Transfers-In from the Residential Housing In-Lieu Fund by \$1,500,000;
 - ii. Increasing the Transfers-In from the Permanent Local Housing Trust Fund by \$1,500,000; and
 - iii. Increasing Contract Services by \$3,000,000.
2. Authorize the City Manager or designee to negotiate and execute a Loan Agreement, Regulatory Agreement, and related documents necessary to implement Council direction in a form approved by the City Attorney.

EXECUTIVE SUMMARY

City Council made funding commitments to the Mitchell Park Place project in 2022; the City would contribute \$1.5 million from the Residential Housing In-Lieu Fund (Fund 233) and would use \$1.5 million from the City's 2022 Local Housing Trust Fund (LHTF) award from the State Department of Housing and Community Development (HCD). It is now necessary for City

Council to undertake budget amendment actions that would allow disbursement of this funding and authorize staff to prepare and execute associated loan documents for the project. These Council actions would complete the internal budgeting process to fund this project.

BACKGROUND

Eden Housing, the City of Palo Alto, and the County of Santa Clara have partnered on the development of Mitchell Park Place. Eden Housing will construct this 50-unit affordable housing development with some of the units specifically for persons with developmental disabilities. The County of Santa Clara owns the project site and both the County and the City have committed funding contributions toward the project.

The City of Palo Alto approved the Planning entitlement¹ for Mitchell Park Place on March 3, 2022. City Council made a funding commitment to the project on May 23, 2022. Council committed either \$2 million in City funds toward the project or \$3 million in the event that the City was awarded a \$3.4 million 2022 Local Housing Trust Fund (LHTF) grant from the State Department of Housing and Community Development (HCD). In the latter case, the \$3 million funding commitment to the project would come from \$1.5 million from the City's Residential Housing In-Lieu Fund (Fund 233) for use as local LHTF matching funds and \$1.5 million would come from the total awarded \$3.4 million as a LHTF grant disbursement from HCD.^{2,3}

As the City received the \$3.4 million 2022 LHTF award from HCD, the City no longer needs to provide funding to the project exclusively through City-only funds – this makes the original \$2 million funding commitment to the project moot.

With Eden Housing's low-income housing tax credit (LIHTC) application approved, construction of the project is now targeted to commence in early 2024. Therefore, the City needs to complete the following actions:

- Recognize the upcoming near-term receipt of the \$1.5 million 2022 LHTF award disbursement from HCD for the project by increasing grants and subsidies in the Local Housing Trust Fund (Fund 252) by \$1.5 million, and disperse funds into General Fund by transferring \$1.5 million to the Planning and Development Services Department;
- Prepare the associated \$1.5 million City local matching funds so that the \$3 million in funding can be disbursed together by increasing the transfer to the General Fund and decreasing ending fund balance in the Residential Housing-In-Lieu Fund (Fund 233) by \$1.5 million;

¹ The 525 E. Charleston (21PLN-00329) webpage contains information on the project entitlement history: <https://www.cityofpaloalto.org/Departments/Planning-Development-Services/Current-Planning/Projects/525-E.-Charleston>.

² City Council City Manager Report ID # 14281; May 23, 2022: https://www.cityofpaloalto.org/files/assets/public/v/1/planning-amp-development-services/long-range-planning/lhtf_14281.pdf.

³ City Council City Manager Report ID # 14300; May 23, 2022: https://www.cityofpaloalto.org/files/assets/public/v/1/planning-amp-development-services/long-range-planning/lhtf_14300.pdf.

- Prepare funds for dispersal by increasing contract services in the General Fund by \$3.0 million; and
- Authorize staff to prepare and execute associated loan documents for Mitchell Park Place.

ANALYSIS

Staff confirmed that the project description for Mitchell Park Place remains the same as when City Council made funding commitments. Eden Housing will construct 50 housing units in one four-story building, including 2,750 sq. ft. of non-profit commercial space, on a 0.78-acre site. The proposed unit mix is 37 studios, eight one-bedroom units, and five two-bedroom units. One two-bedroom unit will be reserved for an on-site manager. As a special needs housing project located near frequent transit, no residential parking spaces are required by the City. However, 19 parking spaces will be provided for the commercial use (11 spaces are required by the City's code), including three parking spaces with electric vehicle charging infrastructure. Bicycle parking will be provided on site, with 50 long-term spaces and seven short-term spaces, for a total of 57 spaces. Supportive service areas include a community lounge with kitchen, support and meeting space, Eden offices, library and tech lounge, and respite rooms.

For this project, the maximum rent for each household will be 30% of a household's income, based on the income levels identified below. Table 3 summarizes the types of units, affordability levels, and unit mix included in the development.

Table 3: Mitchell Park Place Unit Types and Affordability Levels

AFFORDABILITY MIX	Units
Extremely Low Income Units @ 30% AMI- studio	13
Extremely Low Income Units @ 30% AMI- 1 bed	1
Extremely Low Income Units @ 30% AMI- 2 bed	1
Very Low Income Units @ 50% AMI- studio	13
Very Low Income Units @ 50% AMI- 1 bed	4
Very Low Income Units @ 50% AMI- 2 bed	1
Low Income Units @ 60% AMI- studio	11
Low Income Units @ 60% AMI- 1 bed	3
Low Income Units @ 60% AMI- 2 bed	2
Manager's Unit (2 BR)	1
Total	50

Notably, the project is receiving funding from several different sources, each with their own, overlapping affordability restrictions. The affordability levels reflected in Table 3 represent the most restrictive requirements that will apply to the property and the restrictions that will be put into practice. To facilitate financing, however, Eden Housing has requested that the City's regulatory agreement simply restrict almost all units to affordability at 60% of AMI.

While the terms of the specific loans for Mitchell Park Place would be finalized after City Council authorization for their preparation, per the Affordable Housing Funding Guidelines, the typical loan terms are a 3% interest rate, deferred, residual receipts, and a 55-year term loan. Underwriting and other LHTF-specific requirements will also need to be incorporated into the loan documents and the City's regulatory agreements for the project.

FISCAL/RESOURCE IMPACT

The staff recommended actions would not involve any new fiscal or resource impact to the funding commitment already made by City Council on May 23, 2022. As a funding update, staff was informed in October that the project no longer needs its FY 2024 Community Development Block Grant (CDBG) funding (\$356,330) due to the lower construction bid received. Those CDBG funds will be reallocated and made available for the FY 2025 CDBG project funding.

ENVIRONMENTAL REVIEW

The commitment of funds does not qualify as a project in accordance of the California Environmental Quality Act (CEQA). In addition, the land use entitlements have already been granted under an expedited project review process under the Supportive Housing Act (AB 2162), which establishes ministerial procedures for the review and approval of the project. Therefore, the project is exempt from CEQA pursuant to Guideline Section 15268.

APPROVED BY:

Jonathan Lait, Planning and Development Services Director