



CITY OF  
**PALO  
ALTO**

## CITY COUNCIL STAFF REPORT

**From: City Manager**

**Report Type: Information**

**Lead Department: City Manager**

**Meeting Date: March 27, 2023**

**Report #: 2212-0561**

### TITLE

Palo Alto Homekey Project Update – March 2023

### RECOMMENDATION

This is an informational report and no Council action is required at this time.

### EXECUTIVE SUMMARY

This report provides a status update on the Palo Alto Homekey project. Staff will return to Council in the coming months to review updated plans, review the lease, and discuss project funding. This report is also intended to share resources with the community about ways they can support the project. <https://www.classy.org/give/332343/>

### BACKGROUND

Project Homekey is a program of the State of California Department of Housing and Community Development (HCD) that funds eligible applicants (such as municipalities) and facilitates partnerships with the State to quickly acquire, rehabilitate, or master lease a variety of housing types. Once developed, these projects provide interim or permanent housing for persons experiencing homelessness and at risk of health concerns. To get people housed, Project Homekey provides many exemptions and requires adherence to rapid deadlines.

The following timeline highlights some Council and staff actions taken to apply for Project Homekey, receive the grant award, and move forward the Palo Alto Homekey site located at 1237 North San Antonio Road. It includes information around sharing cost escalations in recent reports.

Date	Action
September 2021 <sup>1</sup>	• Declaration of an emergency shelter crisis.

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<sup>1</sup> September 27, 2021 Council Action Minutes: <https://bit.ly/3mNX9ez>

Date	Action
	<ul style="list-style-type: none"> <li>• Authorization to apply for Project Homekey funds in conjunction with LifeMoves for an 88-unit emergency shelter on a portion of the former Los Altos Treatment Plant (LATP) site at 1237 North San Antonio Road, known as “Palo Alto Homekey”.</li> </ul>
November 2021 <sup>2</sup>	<ul style="list-style-type: none"> <li>• Amended authorization for Project Homekey application to reflect updated capital and estimated operating expenses.</li> </ul>
December 2021	<ul style="list-style-type: none"> <li>• City applied, with LifeMoves, for Project Homekey grant for an 88-unit two story interim supportive housing project, noting the need to reorganize “Area C” of the LATP site to allow for continued GreenWaste (GW) sorting operations.</li> </ul>
June 2022	<ul style="list-style-type: none"> <li>• Approved three-story design option for Palo Alto Homekey.</li> </ul>
July 2022	<ul style="list-style-type: none"> <li>• Provided courtesy review and comments on Palo Alto Homekey at Architectural Review Board (ARB).<sup>3</sup></li> </ul>
August 2022	<ul style="list-style-type: none"> <li>• Received \$26.6 million grant award for Palo Alto Homekey.<sup>4</sup></li> <li>• Received authorization to sign a Standard Agreement with the State for Palo Alto Homekey.</li> <li>• Coordinated regular project meetings between LifeMoves and City staff.</li> </ul>
September 2022	<ul style="list-style-type: none"> <li>• Engaged in conversations with LifeMoves, Santa Clara County’s Office of Supportive Housing (OSH), and the Santa Clara County Housing Authority (Housing Authority) to partner on Palo Alto Homekey.<sup>5</sup></li> </ul>
October 2022	<ul style="list-style-type: none"> <li>• Received \$4 million Challenge Grant from Santa Clara County Board of Supervisors for Palo Alto Homekey project.</li> </ul>
November 2022	<ul style="list-style-type: none"> <li>• Initiated project scope re-examination in response to significant cost increases as a result of economic uncertainty, high inflation, and supply chain issues.</li> </ul>

<sup>2</sup> November 1, 2021 Council Action Minutes: [20211101amccs.pdf \(cityofpaloalto.org\)](https://cityofpaloalto.org/2021/11/01/amccs.pdf)

<sup>3</sup> July 21, 2021 ARB Minutes: [Agenda - Thursday, September 1, 2022 \(cityofpaloalto.org\)](https://cityofpaloalto.org/2021/07/21/agenda-thursday-september-1-2022) In previous Council discussion about Palo Alto Homekey, the Council agreed that, though not required, the project will be heard by the ARB. The ARB’s discussion would be a courtesy review and provide the public a forum to offer comments on the design. Accordingly, there will be no review of the project for adherence to the Architectural Review Findings in PAMC 18.76.020 since they do not apply.

<sup>4</sup> August 15, 2022 Council Action Minutes: <https://cityofpaloalto.primegov.com/Public/CompiledDocument?meetingTemplateId=9029&compileOutputType=1>

<sup>5</sup> The County Office of Supportive Housing, the City, and LifeMoves will partner on the operations at the site once construction is complete. The Housing Authority and the City will partner during and after construction to ensure the site is well maintained. This builds operating oversight support for the City and allows us to leverage the skills of trained professionals, in addition to our existing partnership with LifeMoves.

Date	Action
December 2022	<ul style="list-style-type: none"> <li>Onboarded new architect and contractor with updated cost estimate and proposed cost savings measures (e.g., deferring some items pending additional funding, reconfiguring space).</li> <li>Approved amendment to Comprehensive Plan to bring alignment between use of the land and its designation, allowing GreenWaste to fully use their new site after relocation.<sup>6</sup> Notified Council of cost challenges and work underway with LifeMoves to address these impacts.</li> </ul>
February 2023	<ul style="list-style-type: none"> <li>Mid-year budget review of potential additional costs related to Palo Alto Homekey.</li> </ul>

## ANALYSIS

### Project Update

To address economic uncertainty, inflation, and supply chain concerns which have caused increased project costs, LifeMoves brought in a new development team focused on identifying ways to save costs while meeting project goals of Palo Alto Homekey. Devcon, the new contractor with its own in-house architect, identified cost savings measures such as deferring some items pending additional funding and reconfiguring space. With proposed savings, the team was able to bring the capital cost estimates down significantly, while still resulting in a safe project that meets the original Council intentions and parameters of the State Homekey grant.

**Attachment A** contains the proposed cost savings measures which include removing the fire loop road and creating two separate entrances (one for GreenWaste, one for Palo Alto Homekey) and setting buildings back from San Antonio Road to avoid impacting an existing gas line. This compares to the original site plan where there was a fire loop lane included and the buildings came all the way forward to the street on San Antonio Road.

Devcon prepared a new site plan (see **Attachment B**) and rendering (see **Attachment C**) similar to what the Council saw at its June 21, 2022 meeting regarding a 3-story design option. Devcon also provided a draft logistics plan (see **Attachment D**) and conceptual landscape plan (see **Attachment E**).

After the cost savings described in **Attachment A**, the remaining capital funding gap is approximately \$6 million. This \$6 million does not include permitting fees or the elements removed when seeking to reduce costs. The Council may want to add some of these elements back into the project scope (namely approximately \$2 million to fund: a different type of

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<sup>6</sup> December 19, 2022 Council Action Minutes:

<https://cityofpaloalto.primegov.com/Public/CompiledDocument?meetingTemplateId=8734&compileOutputType=>

fencing, sunshade sails, and solar and EV chargers). Additionally, as with any construction project, staff expects there will likely be unanticipated costs found once construction begins.

Therefore, to address the \$6 million capital funding cap, it is expected that:

- The City anticipates needing to contribute \$2 million,
- LifeMoves has committed an additional \$2 million (already has over 50% of the funds committed), and
- LifeMoves is working with the City to identify funding including other partners and private donations for the remaining \$2 million.

Staff anticipates the need for the City to contribute up to an additional \$0.5 million to \$2.5 million beyond any contribution towards the \$6 million capital funding gap to address the cost of permit fees and the potential reintroduction of any removed cost savings elements. This would result in \$2.5 million to \$4.5 million in additional City support depending on decisions made.

Since this project aligns with the intentions adopted by the Council for Measure K, those revenues could be a potential funding source for the City's contribution as this project relates to affordable housing for unhoused neighbors. Additionally, the Council allocated \$7 million over 7 years (which equates to \$1 million per year for 7 years) towards Palo Alto Homekey operations starting in the current fiscal year (FY 2023) through FY 2029. As the timeline below shows, the shelter will not be operational in FY 2023. Thus, the Council could carry forward this FY 2023 funding or could use the funding towards the City's contribution to the capital funding gap and extend the operating funding to FY 2030.

#### Timeline and Next Steps

Palo Alto Homekey's schedule has been impacted by cost increases as noted above due to economic factors, leading to a change in architect and contractor. This triggered the creation of a new schedule, site plan, and drawings. Another factor affecting the project's timeline is long lead times for critical items (e.g., electrical switchgear, a key component in an electrical power system). The original HCD deadline for the project completion would have been August 2023. However, HCD does have a process for applying for extensions due to circumstances or conditions beyond the project's control. Staff will apply for this in partnership with LifeMoves.

Staff will return to Council in the coming months, with detailed plan sets, and the Palo Alto Homekey lease for review and approval. Staff will also share ways the community can support this project, through donation opportunities as this information is finalized in partnership with LifeMoves. For the time being, the donation page for LifeMoves is [www.lifemoves.org/gift](http://www.lifemoves.org/gift).

Palo Alto Homekey <sup>1</sup> Draft High-Level Schedule									
	2023				2024				2025
	Q1 <sup>2</sup>	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Schematic design documents									
Design development documents									
Construction documents									
Permit review									
Temporary location GW site work									
Permanent location GW site work <sup>3</sup>									
Palo Alto Homekey construction									
Mobilization									
Grading									
Joint trench									
Concrete work									
Set modules									
Decking and stairs									
Site built items									
Site work									
Final inspections/punchlist									
<sup>1</sup> Schedule includes GreenWaste (GW) temporary relocation during construction and permanent location post-construction—necessary components to allow for development of the Palo Alto Homekey interim supportive housing project. <sup>2</sup> Quarter (Q) is on the calendar year. <sup>3</sup> Includes procurement lead time for switchgear.									

## FISCAL/RESOURCE IMPACT

In August 2022 Palo Alto and LifeMoves were awarded \$26.6 million in Project Homekey funds from the California Department of Housing and Community Development (HCD), which, combined with City and Santa Clara County funding, generous local donations (including from Sobrato Philanthropies), and the dedication of over an acre of land, met the capital and operating needs as understood at that time. As previously referenced, part of the City's funding contribution includes a pledge to support operations with \$7 million, distributed at a rate of \$1 million annually for seven years. Other resources include the significant staff time dedicated to this project to date from both the City and LifeMoves. LifeMoves has secured contractors to perform design and other relevant work to keep this project moving. The City has funded

studies and reports to ensure the site is ready to build upon (e.g., Phase I, Phase II, and soil studies and reports).

This information was referenced in the Analysis Section of this report, but also briefly mentioned here: staff anticipates the need for the City to contribute up to an additional \$0.5 million to \$2.5 million beyond the \$6 million capital funding gap to address the cost of permit fees and the potential reintroduction of any removed cost savings elements. This would result in \$2.5 million to \$4.5 million in additional City support depending on decisions made.

One potential funding source for the City's additional contribution could be Measure K as this project relates to affordable housing for unhoused neighbors. Additionally, as referenced above, with no shelter operations in this fiscal year, the Council could carry forward the \$1 million in funding set aside for operating expenses in FY 2023 or could use the funding towards the City's contribution to the capital funding gap and extend the operating funding currently sunseting in FY 2029 to FY 2030.

Staff will return to Council for consideration of recommendations on this and other related project actions.

Beyond the City's contribution, LifeMoves has committed \$2 million towards the capital funding gap. That information is included in the Analysis Section above.

## **STAKEHOLDER ENGAGEMENT**

The current stakeholder engagement includes regular and as-needed meetings between partners (e.g., LifeMoves, Office of Supportive Housing (Santa Clara County), Santa Clara County Housing Authority, GreenWaste, Google (related to easements), and the City of Mountain View). As Council consideration and project actions are finalized, staff and LifeMoves will plan a groundbreaking and other opportunities for the public to engage on project progress. For those interested in giving to LifeMoves for this project, the donation page is [www.lifemoves.org/gift](http://www.lifemoves.org/gift).

## **ENVIRONMENTAL REVIEW**

This item is presented only for Council's information and therefore it is not a project subject to environmental review by the California Environmental Quality Act (CEQA).

## **ATTACHMENTS**

Attachment A: Proposed Cost Savings

Attachment B: Draft Site Plan

Attachment C: Rendering

Attachment D: Draft Logistics Plan

Attachment E: Conceptual Landscape Plan

**APPROVED BY:**

Ed Shikada, City Manager