



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Planning and Development Services

Meeting Date: August 7, 2023

Report #:2306-1724

TITLE

Approval of FY 2024 Budget Amendment in the Residential Housing In-Lieu Fund for the Reappropriation of \$3.0 million from FY 2023 to FY 2024 for 231 Grant Avenue Loan Agreement; CEQA – Not a Project

RECOMMENDATION

Staff recommends that Council amend the FY 2024 Budget Appropriation for the Residential Housing In-Lieu Fund by (2/3 approval needed):

- a. Increasing the Grants and Subsidies expense appropriation in the amount of \$3,000,000; and
- b. Decreasing the Ending Fund Balance in the amount of \$3,000,000.

CEQA review: Loans are not subject to CEQA review.

EXECUTIVE SUMMARY

On February 7, 2022, the City Council approved a loan for the proposed residential development at 231 Grant Avenue. The City is partnering with the County of Santa Clara in the development of a 110-unit residential development. These units will be primarily for teachers and other school district employees from participating school districts in Santa Clara and San Mateo counties. The County of Santa Clara owns the project site and is the lead agency in the development of the project. The City funds will be used for construction. Escrow closed for the Construction loan on June 30, 2023 and the developer will need the City funds in August 2023. This action will make the funds available in the correct fiscal year.

BACKGROUND

Two years ago, the City Council adopted a Housing Work Plan, which staff prepared in response to a City Council Colleagues' Memorandum. The Colleagues' Memorandum stated the desire for zoning updates to encourage diverse housing near jobs, transit, and services. The memo

presented several specific concepts, many of which were also identified in the City's Housing Element (adopted November 2014¹) and the updated Comprehensive Plan (adopted November 13, 2017²). The Housing Work Plan identified specific policies and other actions staff should take in order to address the housing need of Palo Altans, including a policy supporting creation of affordable housing for City and School District employees.

In June 2018, the President of the Santa Clara County Board of Supervisors, Joe Simitian, sent a letter to the City requesting the City set aside \$3.0 million for supportive funding of a concept teacher housing project on County-owned land in Palo Alto. That same month, the City Council authorized the City Manager to set aside \$3.0 million in affordable housing funds for the project to be disbursed when a suitable project concept and contract is determined to be agreeable by final project partners. The \$3.0 million in funds were reserved in June 2018. The action minutes approving the reserved funds can be found here. ³On January 11, 2022, the Santa Clara County Board of Supervisors certified the Final Environmental Impact Report and approved the project.

Since that time, the developers, Mercy Housing and Abode Communities, have been working in finalizing development plans and securing financing for the project. On June 30, 2023, escrow closed for the construction loan phase of the development.

ANALYSIS

The funds for this project were included in the Fiscal Year 2023 budget, in anticipation that they would be used within that timeframe. Some minor delays in the close of escrow for the project result in the need for funds to be disbursed in Fiscal Year 2024 instead. Ordinarily, the funds would be reappropriated as part of the standard process for reappropriations since the loan terms were not able to be finalized before the close of FY 2023. The annual reappropriation memorandum is anticipated to be presented to Council in October 2023. Given the timeliness and urgency of the funding from the loan, the budgetary actions described in the recommendation section of this report constitute an "early reappropriation".

Funding of \$3.0 million is recommended to be reappropriated from FY 2023 to FY 2024 as part of this memorandum to support work related to this contract and minimize impacts to other work planned in FY 2024. The recommendation recognizes that the unspent funds from FY 2023 will

¹ November 10, 2014 City of Palo Alto Housing Element:

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2014/id-5191.pdf>

² November 13, 2017 Comprehensive Plan Update: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2017/8395.pdf>

³ June 25, 2018 City of Palo Alto City Council Action Minutes:

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/00-archive/2018/06-25-18-action-minutes.pdf>

fall to fund balance, and therefore this action draws on fund balance to encumber funds for this contract; the impacts have already been incorporated into projections and discussion of available fund balance in the Residential Housing In-Lieu Fund.

FISCAL/RESOURCE IMPACT

If approved, the project will receive \$3.0 million from the City's Residential Housing In- Lieu Fund towards the development of the project. Sufficient funding is available to be appropriated as this funding had been previously committed and earmarked as this is a technical realignment between fiscal years.

Per the Housing Funding Guidelines, the loan terms are a 3% interest rate, deferred, residual receipts, 55-year term loan. The loan may be forgiven at the City Council's discretion at the end of the loan. If the loan is repaid, staff will bring forward budgetary adjustments to recognize the revenue during the annual budget process.

ENVIRONMENTAL REVIEW

Review and submittal of the attached report and the approval of the loan and related financing regulatory documents are exempt from the California Environmental Quality Act (CEQA). On January 11, 2022, the Santa Clara County Board of Supervisors certified the Final Environmental Impact Report for the project.

APPROVED BY:

Jonathan Lait, Planning and Development Services Director