TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT

DATE: MARCH 6, 2006

CMR: 148:06

SUBJECT: ALMA GARDEN APARTMENTS: 1) APPROVAL OF AN AMENDMENT TO THE 2005-2006 ANNUAL ACTION PLAN TO ALLOCATE $1,150,000 IN FUNDING FROM THE CDBG HOUSING DEVELOPMENT FUND AND FY 2006/07 CDBG GRANT ALLOCATION TO THE COMMUNITY WORKING GROUP FOR THE ACQUISITION OF THE EXISTING HOUSING UNITS LOCATED AT 2507-2533 ALMA STREET NEAR COLORADO AVENUE; 2) APPROVAL OF AN AGREEMENT IN THE AMOUNT OF $1,150,000 WITH THE COMMUNITY WORKING GROUP FOR THE ACQUISITION OF THE ALMA GARDEN APARTMENTS LOCATED AT 2507-2533 ALMA STREET; 3) ADOPTION OF A BUDGET AMENDMENT ORDINANCE TO TRANSFER $250,000 FROM THE CITY COMMERCIAL HOUSING FUND TO THE CDBG HOUSING DEVELOPMENT FUND

RECOMMENDATION

Staff recommends that the City Council:


1. Approve and authorize the allocation of funds in the amount of $900,000 from the existing Community Development Block Grant (CDBG) housing development fund to the Community Working Group for the acquisition of the Alma Street Apartments located at 2507-2533 Alma Street.

2. Approve and authorize the allocation of $250,000 from the next fiscal year (2006/2007) CDBG grant allocation for the acquisition of the Alma Street Apartments.

3. Approve and authorize the City Manager or his designee to execute the attached agreement in the amount of $1,150,000 with the Community Working Group for the acquisition of the Alma Street Apartments.
4. Adopt the attached Budget Amendment Ordinance to transfer $250,000 from the City Commercial Housing fund to the CDBG housing development fund in order to carry out acquisition of the Alma Street Apartments.

5. Authorize the City Manager to request $250,000 in fiscal year 2006/2007 CDBG funds from the Department of Housing and Urban Development in order to reimburse the City Commercial Housing Fund.

BACKGROUND
The City approved the 2005/2006 Annual Action Plan in May 2005. The action plan is an annual update that describes the eligible CDBG activities that the City intends to undertake in the coming fiscal year to address the needs and implement the strategies identified in the City’s 5-year Consolidated Plan. The 2005/2006 Annual Action Plan was approved by the Department of Housing and Urban Development (HUD) on July 14, 2005.

The City is required to amend its Annual Action Plan when it plans to undertake an activity not previously identified in the plan. The City is proposing to allocate funds for the acquisition of an affordable housing site that was not previously identified in the 2005-2006 Annual Action Plan; therefore, the plan will need to be amended. The draft amended 2005-2006 Annual Action Plan was available for public review and comment from February 1 to March 3, 2006.

HUD allocates CDBG funds annually and imposes many regulations on the expenditure of those funds. The City maintains a housing development fund that is funded annually with CDBG funds for the creation of more affordable housing. Because of the high cost of property in the City and the limited CDBG funding the City receives, it has been difficult to use the funds annually for a project. Contributions to the CDBG housing fund have consequently accumulated to the current fund balance of approximately $900,000. HUD requires that the City expend funds in a timely manner or else risk a permanent funding reduction. In order to meet the timeliness requirement, the City must expend the existing funds in the CDBG housing development fund by April 30. Last October, the City issued a special request for proposals (RFP) for the acquisition of an affordable housing site to be funded through the CDBG housing development fund. The RFP also included a request for applications for the fiscal year 2006/2007 CDBG grant allocation.

DISCUSSION
The City received two funding applications in response to the RFP for the acquisition of an affordable housing site. One application was received from Senior Housing Solutions (SHS) for the acquisition of a single-family home which would be converted into a group home for five low-income senior citizens. SHS requested $900,000 from the City for its project with the total project cost estimated at $1,056,650 with the additional funding coming from the Housing Trust of Santa Clara County and the Peninsula Community Foundation. SHS has not at this time identified a specific property for acquisition.
The second application was received from the Community Working Group (CWG) for the acquisition of a 10-unit apartment complex located at 2507-2533 Alma Street. The complex consists of eight studio apartments and two one-bedroom apartments which will be able to accommodate approximately twelve people. The total cost of the acquisition is estimated to be $1,788,663. CWG requested $1,150,000 from the City and plans on obtaining the balance through a conventional bank mortgage.

Staff recommends that CWG be allocated the requested $1,150,000 for its project. CWG has secured the site through a purchase agreement with the property owners and can obtain the balance of the funds for the acquisition in a timely manner. In contrast, SHS has not yet identified a project site, and staff questions if an appropriate property can be obtained and retrofitted to accommodate five individuals with the available funding. SHS has very little cash on hand to contribute toward the project. Finally, the SHS project will provide only five units of affordable housing. Staff met with the CDBG Citizens Advisory Committee (CAC) on January 12, 2006 to discuss both applications, and the CAC concurred with staff’s recommendations.

Staff recommends that CWG be allocated $900,000 from the CDBG housing development fund and the remaining $250,000 from the fiscal year 2006/2007 CDBG allocation. The $250,000 allocation will initially be funded from the City Commercial Housing Fund via a transfer to the CDBG Fund. The City Commercial Housing Fund will then be reimbursed with fiscal year 2006/2007 CDBG funds when they are available.

**RESOURCE IMPACT**

$900,000 of the funds that will be allocated to the Community Working Group will come from previously allocated funds from the CDBG housing development fund and $250,000 will come from the City’s future CDBG allocation. The initial disbursement of $250,000 will come from the City Commercial Housing fund which will be reimbursed by the CDBG program when funds become available in fiscal year 2006/2007. The cost of the agreement will be funded with federal CDBG funds provided through the U.S. Department of Housing and Urban Development (HUD).

**POLICY IMPLICATION**

The recommendation in this staff report is consistent with HUD policies and does not represent any change to City policies.

**PREPARED BY:**

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**APPROVED BY:**

STEVE EMSLIE
Director of Planning and Community Environment
CITY MANAGER APPROVAL: _______________________________________

EMILY HARRISON
Assistant City Manager

ATTACHMENTS
B – Budget Amendment Ordinance
C – Agreement between the City of Palo Alto and the Community Working Group for the Acquisition of the Alma Street Apartments located at 2507-2533 Alma Street

COURTESY COPIES
Community Working Group
Senior Housing Solutions
CDBG Citizens Advisory Committee