TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT
DATE: MAY 13, 2002 CMR:253:02


REPORT IN BRIEF
The Finance Committee considered the 2002-2003 CDBG allocations at a public hearing on April 16, 2002. The Finance Committee voted to recommend to Council the approval of the staff and Citizen Advisory Committee recommendations reflected in the attached CMR:206:02. Subsequent to the Finance Committee actions, two changes have been made to the funding allocation package.

In order to provide additional funding to enable proceeding with legal actions to secure the Opportunity Center site, it has been requested by the Santa Clara County Housing Authority and the Community Working Group that the City reserve up to $250,000 in additional funding. The source of the reallocated $250,000 in CDBG funds is $112,000 from the 2001-2002 allocation to Alliance for Community Care to rehabilitate 560 Waverley Street and $138,000 from the 2001-2002 and 2002-2003 CDBG Housing Development Funds. The Waverley Street project has been terminated at the request of Alliance’s Board of Directors. Any portion of the $250,000 not expended as part of the Opportunity Center project will revert to the CDBG Housing Development Fund.
In addition, it is recommended that the City Council authorize the Housing Authority to utilize all actions necessary to develop the Opportunity Center project, such as eminent domain. It is also recommended that the City Council approve the request by the Community Working Group to transfer CDBG funds for the project to the Housing Authority.
**RECOMMENDATION:**
Staff recommends that the City Council:

1. Adopt the attached “Resolution of the City Council of the City of Palo Alto Approving the Use of Community Development Block Grant Funds for Fiscal Years 2002-2003 and the Preliminary Commitment of Funds From Fiscal Years 2003-2004 and 2004-2005,” including contingency options and a change to a two-year CDBG funding cycle.

2. Authorize and direct the City Manager, or his designee, to execute and submit to HUD the application and other documentation necessary to file the application with HUD, and to otherwise bind the City with respect to the application, before the May 15, 2002 deadline.

3. Authorize and direct staff to carry out any further required environmental assessments and certifications for each project under the National Environmental Policy Act (NEPA) prior to the commitment of funds.

4. Adopt the attached “Resolution of the City Council of the City of Palo Alto Consenting to the Housing Authority of Santa Clara County Transacting Business Within the City of Palo Alto for the Purpose of Acquiring Land and Developing Affordable Housing on Parcels Located at 33, 39 and 45 Encina Avenue,” and approve substitution of the Housing Authority for the Community Working Group as the contact administrator of Opportunity Center 2001-2002 funding in the amount of $480,000.

**BACKGROUND**
The purpose of the May 13, 2002 public hearing is for the City Council to review and act on the recommendations of the Finance Committee regarding the Fiscal Year 2002/03 CDBG funding allocations. The required 30-day public review period for the Draft Annual Action Plan began on April 1, 2002 and concluded on April 30, 2002. Public comments on the draft Annual Action Plan are appended to the report. The attached staff report (CMR:206:02) provides background information on the 2002/03 CDBG process, specific administrative issues, the funding proposals, the staff and Citizens Advisory Committee (CAC) funding recommendations, and the draft Annual Action Plan.

The Finance Committee considered the 2002/03 CDBG allocations at a public hearing on April 16, 2002. Attachment C contains the Finance Committee meeting minutes. The Finance Committee voted to recommend to Council the approval of the staff and CAC recommendations reflected in CMR:206:02. However, since the Finance Committee’s actions on April 16, 2002, the Waverley Street project has been dropped and the City has received a compelling request for a commitment of additional funds for the Opportunity Center project.
DISCUSSION
Opportunity Center
During the last year, the Community Working Group (CWG), with the support of City staff, decided to acquire an adjoining lot at 45 Encina Avenue for the purpose of providing a larger and more functional site for development of the Opportunity Center. With the three parcels (33, 39 and 45 Encina Avenue) the site will be 18,178 square feet in size. The larger site allows the development of almost twice the number of housing units over the services center (95 units versus 55 units). In addition, an improved layout is possible for family and adult services and the underground parking can be more efficiently designed.

CWG presently holds clear title to 33 Encina and acquired title to 39 Encina, subject to the right to purchase claim by the former commercial tenant. CWG has made repeated attempts to enter into a purchase agreement with the owner of 45 Encina and to resolve title issues to 39 Encina. City staff has been involved in meetings and negotiations over the last two months to facilitate an arrangement whereby CWG and the Housing Authority could cooperate on the project. The two parties have now restructured the project and the role of each entity in implementation.

The Housing Authority will take the lead role as the developer of both the service center and the 95 housing units to be built over the center. It will be the applicant for the complex mix of loans, grants and tax credit financing that must be assembled to construct this $17 million project. The Housing Authority Board of Commissioners also agreed on April 23, 2002 to utilize its eminent domain authority, if necessary, to remove the remaining title issues on the 39 Encina Avenue parcel, to acquire 45 Encina, and to relocate the business that presently occupies that property. These changes should ensure that full control of the entire site is obtained in time to meet the September 30, 2002 deadline recommended by the Finance Committee, staff and the CAC. With the full participation of the Housing Authority in resolving the site control issues, CWG will now be able to proceed immediately with its architect to prepare and submit the Planned Community zone change application to the City. The Housing Authority will act as the administrator for the various contracts during the predevelopment period, including architecture, engineering, relocation consultant and benefits and legal work. CWG has submitted a letter requesting that the full amount of Palo Alto’s CDBG funds allocated for the project be transferred to the Housing Authority (see Attachment D).

The Housing Authority’s legal counsel has advised staff that it is prudent to have the Council expressly authorize the Housing Authority to use its legal powers to develop the Opportunity Center project, including the proposed 95 units of housing, on the property known as 33, 39 and 45 Encina Avenue. The attached resolution expresses the Council consent to such actions by the Housing Authority as are necessary to develop the project, including utilizing its powers of eminent domain to secure the acquisition of the entire
site free and clear of any impediments to the construction of the project. The resolution does not in any way reduce, modify or constitute approval by the Council of any future land use or zoning actions connected with the project.

As a condition of proceeding with the project, the Housing Authority Board requested that the City reserve a total of $1,280,000 in funding (over the $1,030,000 already planned) for acquisition, relocation and pre-construction costs. Staff supports an additional $250,000 funding commitment at this time for land acquisition and related costs. Staff recommends that Council include the $250,000 in the budget resolution for the CDBG program for 2002-03. This action will provide the Housing Authority with the assurances and the financial commitment it requested. However, these additional funds will not be put under contract until it is clear how, and if, they should be spent. The source of the $250,000 is CDBG funds, including $112,000 in funds reprogrammed from the Alliance for Community Care’s project to rehabilitate the Waverley Street house, plus $138,000 in current year and FY 2002-03 City CDBG Housing Development Funds. No funds for the Opportunity Center project will be expended until Council has reviewed and approved the funding and loan agreements for the use of the City’s funding.

Termination of Waverley House Project:
The attached CMR:206:02 to the Finance Committee includes a discussion on the status of the property at 650 Waverley Street on page 6. At the time that CMR was written, Alliance’s Board had decided to sell the property for the best price possible, although it had agreed to consider offers from agencies interested in using the house for transitional or permanent housing for homeless persons. Two non-profit agencies submitted purchase offers to Alliance. One, by the Emergency Housing Consortium, was for $800,000, and the other, by Innvision, was for $1,100,000. Simultaneously, Alliance received an offer from a private buyer for $1,200,000 which included a relatively short period to close escrow. The Alliance Board accepted the private offer due to the higher price and the short closing. Escrow closed on April 30, as scheduled; and Alliance sent the City a letter confirming that the $112,000 in CDBG funds previously appropriated for the building’s rehabilitation could be released for other purposes. Alliance had owned the property free and clear of any debts or regulatory controls other than $12,936 in principal and interest on a 1998 City CDBG loan for feasibility study work. The City’s loan was repaid from the sales proceeds. In addition to the loss of a property that would have housed up to 12 homeless adults, over $500,000 in housing subsidies from other public and private funders (including a $184,000 HUD McKinney grant) will now be lost or diverted to projects elsewhere in the County.

RESOURCE IMPACT
The Finance Committee approved a staff and CAC recommendation that the $112,000 in Waverley House funds revert to the City’s Housing Development Fund if Alliance did not agree to a sale to an acceptable successor agency by September 30, 2002. Staff believes that those funds can now be more effectively used to help move the Opportunity
Center project forward. In the long run, should the funds not be needed for the Opportunity Center, they would revert to the Housing Development Fund for future housing site acquisition. The $250,000 in additional funding for the Opportunity Center will come from the following specific funds:

$112,000 Reprogrammed Funds from Waverley House Project
$58,000 FY 01 – 02 CDBG City’s Housing Development Fund
$80,000 FY 02 –03 CDBG City’s Housing Development fund

$250,000 TOTAL

All of the above funding will revert to the CDBG Housing Development Fund if not proven necessary for the Opportunity Center project. A balance of about $44,000 is being left in the current years CDBG Housing Development Fund for City expenses related to feasibility studies on a future multi-family housing site and at least $26,500 of those funds will be expended this fiscal year. The transfer of $80,000 from FY 2002-03 City Housing Development Fund monies will reduce the allocation to that Fund, previously approved by the Finance Committee, from $198,500 to $118,500. While this reduces the funding available for future housing land acquisition, staff believes that providing the necessary financial support to move the Opportunity Center project forward is a more immediate priority.

ATTACHMENTS
Attachment A  CDBG Funding Resolution for Fiscal Year 2002/03
Attachment B  Resolution Consenting to the Housing Authority of Santa Clara County Transacting Business Within the City of Palo Alto
Attachment C  April 16, 2002 Staff Report (CMR:206:02)
Attachment D  May 7, 2002 Letter from The Community Working Group, Inc.

PREPARED BY:  _________________________________
Suzanne Bayley, CDBG Coordinator

DEPARTMENT HEAD REVIEW:  _________________________________
STEPHEN EMSLIE
Director of Planning and Community Environment

CITY MANAGER APPROVAL:  _________________________________
cc:  CDBG Citizens Advisory Committee
     Human Relations Commission
     2002/2003 Applicant Agencies
     Housing Authority of Santa Clara County