

TO: City Council
FROM: Sharon Lumbantobing, Deputy Community Development Director
DATE: September 15, 2026
SUBJECT: Interlocal Agreement with Cities of Lacey, Olympia and Thurston County for Franz Anderson Road Permanent Housing Project – Second Amendment

1) Recommended Action:

Authorize the Mayor to sign the Interlocal Agreement with Cities of Lacey, Olympia and Thurston County for Franz Anderson Road Permanent Housing Project.

2) Background:

The City of Tumwater is a party to an Interlocal Agreement (ILA) and a first amendment to the ILA with regional partners supporting the development of permanent supportive housing at 527 Franz Anderson Road SE in Olympia. The agreement establishes the participating jurisdictions' financial commitments and terms for the regional partnership. The City identified \$275,000 in General Funds in the initial ILA in 2023 that it intends to transfer to the City of Olympia for the facilitation of the development of permanent supportive housing at the Franz Anderson Road property.

The Second Amendment provides additional certainty regarding the development, occupancy, affordability, and long-term use of the Franz Anderson Road property and establishes project milestones and protections for the participating jurisdictions. The amendment does not require Tumwater or the other participating jurisdictions to provide additional funding beyond what has already been committed.

The Second Amendment includes the following primary changes:

Revised unit mix. The original ILA and First Amendment required all 70 permanent supportive housing (PSH) units to serve households with incomes at or below 30 percent of Area Median Income (AMI). Earlier this year, LIHI requested that the project funders approve a revised unit mix to support the financing needed to fully fund the project. Under the Second Amendment, 35 units will serve households with incomes at or below 30 percent AMI and 35 units will serve households with incomes at or below 50 percent AMI.

Development and long-term affordability requirements. The property will be developed with at least 70 studio and one-bedroom PSH units, plus one additional one-bedroom unit for an on-site manager. At least 30 residential units will be accessible to persons with disabilities, and the property will continue to be used in perpetuity to provide affordable housing.

Occupancy priorities and operating support. Priority for available PSH units will be given to single adults and couples exiting the Franz Anderson tiny house village, single adults and couples exiting Maple Court, and single adults and couples whose last known address was within Thurston County. As of July 2026, the Housing Authority of Thurston County has dedicated project-based vouchers to the project. The vouchers will provide an operating subsidy for 18 units serving households experiencing homelessness.

Project milestones and withdrawal provisions. The project must receive full funding and close on financing by December 31, 2026, and construction must begin by May 2028. If these milestones are not met, a participating jurisdiction may withdraw from the agreement. A party may also withdraw from the agreement if LIHI is unable to construct the project after financial closing. Upon withdrawal, the City of Olympia is required to return the funds contributed by that party pursuant to the agreement.

Maple Court conversion. The Second Amendment identifies the conversion of Maple Court to Permanent Supportive Housing as a regional priority. Maple Court is an enhanced shelter located in Lacey and operated by the Low Income Housing Institute (LIHI). The shelter is supported by the state's Encampment Resolution Program and serves unhoused individuals transitioning from Thurston County encampment sites into housing.

LIHI intends to convert Maple Court from an enhanced shelter to PSH and has been working to secure capital funding for the conversion. The state awarded the project capital funding through the Apple Health and Homes program, which helps place Medicaid beneficiaries into permanent supportive housing and requires certain funded units to serve Medicaid beneficiaries. Lacey has requested that the state shift the project's capital funding from Apple Health and Homes to the Housing Trust Fund. This would provide LIHI with greater flexibility to serve eligible unhoused individuals regardless of Medicaid enrollment.

Property sale. The Second Amendment includes Exhibit A, the Revised and Amended Real Estate Purchase and Sale Agreement between the City of Olympia and LIHI. The agreement establishes the terms by which Olympia intends to sell, and LIHI intends to purchase the Franz Anderson Road property for \$1 for development of the Franz Anderson Permanent Supportive Housing project.

3) Policy Support:

Housing Element Goal H-2: Expand the supply of permanent, income-restricted affordable housing.

4) Alternatives:

☐ None.

5) Fiscal Notes:

\$275,000 in City of Tumwater's general funds will be used to fund the project.

6) Attachments:

- A. Second Amendment to the Interlocal Agreement for Franz Anderson Road
- B. Amended Real Estate Sale and Purchase Agreement for Franz Anderson Road