



CITY OF SAN MATEO

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Agenda Report

Agenda Number: 8

Section Name: {{section.name}}

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TO: City Council
FROM: Alex Khojikian, City Manager
PREPARED BY: Community Development Department
MEETING DATE: December 4, 2023

SUBJECT:
Child Care Facilities Fund Loan for Improvements at 2575 Flores Street – Agreement

RECOMMENDATION:

Adopt a Resolution to approve a Child Care Facilities Fund loan of \$430,000 to Mighty Tiger Preschool, LLC for tenant improvements at 2575 Flores Street, Suite 1, San Mateo to establish a new child care facility, and authorize the City Manager to execute the loan agreement, promissory note, short form deed of trust and agreement containing covenants affecting real property and all related documents in such a manner that does not substantially change the loan terms.

BACKGROUND:

The Child Care Facilities Fund was originally established in 2004 with the Child Care Development Fee to address the critical need for more childcare spaces in the City. It took several years to receive sufficient fee revenue to facilitate financial assistance for projects that result in an increase in new, licensed, and high-quality childcare spaces. In October 2018, the City Council approved the Interim Child Care Fund Guidelines and authorized the release of a Notice of Funding Available (NOFA) in 2019, making San Mateo the first jurisdiction in the County to offer funds for childcare construction. That NOFA resulted in the completion of three childcare projects which created a total of 98 new, licensed childcare spaces; with six of those spaces dedicated for infants of low-income families, which helps address a critical childcare need. Despite several challenges for each of the borrowers, the three projects completed construction and opened during the first two years of the Covid-19 pandemic with limited capacity. The three completed facilities continue to operate and have been increasing their attendance as conditions and staffing allow.

The 2019 NOFA experience provided lessons and new ideas. There has been a longtime need for greater amount of information and assistance for potential childcare providers who are interested in starting or expanding their businesses. With feedback and advocacy from childcare professionals and the lessons learned from the first completed projects, the City developed a comprehensive program for creating child care facilities. The first and most important tool is the new Child Care Start Up Guide, which is available in both English and Spanish. This publication is available on the City's website (www.cityofsanmateo.org/childcarefacilitiesfund) and helps identify important definitions, key steps and information about local and state requirements, and to navigate the City's permit process.

The Site Assessment Report is a unique service offered by the City that was created in response to the common questions received by potential child care providers and offers the most important information needed when selecting a location for a child care facility. This is a service available for anyone who is prepared with some basic information of the location and plans for the facility and needs help in determining if a potential property or location is viable. The site assessment is conducted by a collaborative of several divisions of the Community Development Department including the childcare facilities loan program staff, a plan checker, a building inspector, and a planner; a fire inspector with the San Mateo Consolidated Fire Department; and a representative from the Public Works Engineering team. This is a free and valuable opportunity for a cross-department service from City staff, especially for those who may not be as familiar with the various

requirements specific to childcare facilities. It is intended to provide a broad summary of the conditions, requirements, and/or recommendations that can help inform the viability of a potential location. Loan applicants are required to complete this assessment to use for project planning and budgeting.

For those interested in obtaining financial assistance, the City has a variety of methods. To date, the primary method has been secured loans. The funds are legally restricted to capital expenditures only which is limited to construction and elements that are fixed in the property. The funds may not be used for operational or programmatic expenditures. These loans are available to childcare providers and/or developers to specifically develop, expand, or otherwise enhance childcare facilities resulting in new licensed child care spaces. The benefits to the loan option are that the terms include zero percent interest, deferred/no payments, and a loan forgiveness schedule based on the amount of money borrowed. The loan forgiveness is contingent upon consistently meeting the annual performance requirements.

The City completed a comprehensive fee study in 2021 that included updates for applicability and increase of the Child Care Development Fee and adopted Municipal Code Chapter 23.65 Child Care Development Fee. The City Council revised the Interim Child Care Fund Guidelines in August 2022 to include the revised fee, new ordinance, additional information about the loan terms, and program processes. Upon approval of the interim guidelines, the Child Care Facility Fund (CCFF) program was initiated and was made available to applicants on a first-come first-serve basis with a priority for requests from projects that are the most “shovel ready”. The Child Care Development Fee that was adopted for FY 2023-2024 is \$4,677.29 for a new single-family residential unit and \$3,373.46 for a new multi-family unit. For new commercial development, which includes retail, office, industrial and hotels, the fee ranges from \$0.14 to \$0.67 per square-foot of new floor area.

DISCUSSION:

On April 12, 2023, Geoffrey Choy and Ruth H. Choy were the first applicants for the new CCFF program who inquired about obtaining a loan. Ms. Choy is an elementary teacher and operated a licensed small family childcare business in Belmont. That business expanded to the current large family childcare business, which is currently running at full capacity. They have identified a new location at 2575 Flores Street in San Mateo to expand their business to create a new childcare center. They are in the process of obtaining a Child Care Center License and will transfer their existing Large Family Child Care Home license to the child care center license. Mr. Choy has a business background in small business lending and many years of project management with the federal government, the nonprofit sector, and the tech sector.

Prior to their inquiry, Mr. Choy had already reviewed the CCFF program materials and submitted his request for the Site Assessment Report with his inquiry. The assessment was completed onsite on May 4, 2023, including Mr. Choy, City staff, and Mr. Choy’s selected architect for his project. The report outcome supported the determination that the proposed location is viable, concurrent with the plans of the applicants. With a viable location confirmed, the next step was for the applicants to complete and submit the loan application, which was submitted on May 30, 2023.

Staff reviewed the initial application and provided follow up questions, along with recommended adjustments to the requested budget. Mr. Choy provided adequate responses that supported a complete application. Upon determination of a complete application, the staff committee of the Interim Department Director, Housing Manager, and Sr. Management Analyst assessed the application. The committee had some clarifying questions regarding the project completion timeline and received the subsequent satisfactory responses.

With the determination of the loan application as viable, the committee recommends City Council approval of the \$430,000 loan to Mighty Tiger Preschool, LLC, resulting in 48 new licensed childcare spaces per the Resolution in Attachment 1. This loan and tenant improvements are comparable to one of the earlier project loans provided by the CCFF program, which was for \$464,000. The borrowers will be required to enforce prevailing wage requirements in accordance with California law, and the loan forgiveness period will be 10 years. The documents to process the loan are included as Exhibit 1. Property owner CBR Flores LLC has reviewed the loan and understands that the agreement is effective upon the executing signature of the City. The termination of the loan agreement will occur on the earlier of: (1) the borrower satisfying the Program Requirements for ten (10) years during the Term, in which case the entire Loan amount shall be forgiven; (2) the full repayment of the loan; or (3) thirty (30) years after the effective date.

BUDGET IMPACT:

The Child Care Facility Fund currently has approximately \$1,300,000 allocated funds available for projects, sufficient to fund the \$430,000 loan.

ENVIRONMENTAL DETERMINATION:

The loan agreement and related childcare facility improvements are categorically exempt from CEQA as an “existing facility,” because it consists of the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features, involving negligible or no expansion of use. (CEQA Guidelines Section 15301.)

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 – Proposed Resolution

Exhibit 1 – Loan Agreement

Exhibit 2 – Promissory Note

Exhibit 3 – Short Form Deed of Trust

Exhibit 4 – City Use Agreement

STAFF CONTACT

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