



CITY OF SAN MATEO

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Agenda Report

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TO: City Council
FROM: Alex Khojikian, City Manager
PREPARED BY: Community Development Department
MEETING DATE: December 9, 2024

SUBJECT:

2000 S. Delaware Street Affordable Housing Project – Loan Documents, Regulatory Agreement, Ground Lease and Supplemental Appropriation

RECOMMENDATION:

Adopt a Resolution appropriating \$500,000 from the General Fund Housing Set-Aside to provide a loan to MP 2000 Delaware, LLC in the amount of \$500,000 for the 2000 S. Delaware Street affordable housing project; approve an Amended and Restated Ground Lease and Regulatory Agreement restricting the units at 2000 South Delaware to households at specified income levels, and approve a Loan Agreement, a Deed of Trust, and a Promissory Note; and authorize the City Manager to execute all documents and make any appropriate changes that do not differ from the Term Sheet.

BACKGROUND:

The 2000 S. Delaware Street affordable housing project (2000 S. Delaware) is 60-unit, deed-restricted affordable development on City-owned land at 2000 S. Delaware St., owned by MidPen Housing (MidPen, operating as MP 2000 Delaware, LLC). 2000 S. Delaware was constructed and operated by Westlake Realty Group as a moderate-income affordable housing development (at or below 120 percent AMI) until MidPen acquired the property in September 2024.

At its August 19, 2024 meeting, the City Council approved the reassignment of the 2000 S. Delaware ground lease from Westlake Realty Group to MidPen and amendments to deepen the affordability of the units from moderate-income to low-income. The City Council also approved a term sheet that included a \$500,000 loan commitment to MidPen in exchange for restricting the units to low-income and directed staff to return with a regulatory agreement, loan agreement, and other documents required to fulfill the requirements of the Term Sheet.

The sale of 2000 S. Delaware from Westlake Realty Group to MidPen closed on September 27, 2024. The Assignment and First Amendment to the Ground Lease (Assignment and First Amendment) that was approved by City Council at the August 19, 2024 meeting was recorded on this date. The Assignment and First Amendment was intended to be in effect in the interim period between the closing date and the execution of an Amended and Restated Ground Lease. The Amended and Restated Ground Lease is included as Attachment 6.

The Regulatory Agreement is included as Attachment 2. The Loan Agreement, Deed of Trust, and Promissory Note are included as Attachments 3, 4, and 5, respectively.

DISCUSSION:

Funding Recommendation

The City Council approved the staff recommendation to provide \$500,000 to MidPen in the form of a residual receipts loan (Loan) to subsidize the deeper affordability level at 2000 S. Delaware. The Loan has a 55-year term with three percent simple interest. Repayments on the Loan will be made out of residual receipts after the repayment of a loan from MidPen

to 2000 S. Delaware, which is expected to take 15 years. A residual receipts loan is a loan that is repaid out of a project's annual revenue after all operating expenses, debt service, deposits into reserves, and other obligatory payments are paid.

Staff recommends a supplemental appropriation for this Loan from the General Fund Housing Set-Aside (Housing Set-Aside). The Housing Set-Aside is one of the most flexible Housing funds in terms of allowable uses, including preservation. The balance of this Fund is approximately \$6.87 million.

MidPen Ownership of 2000 S. Delaware

MidPen conducted two outreach meetings prior to the transition in ownership to discuss the upcoming changes and address any questions or concerns from residents. Residents were informed that rents will not change for the first year of ownership.

As noted in the August 19, 2024 agenda report, current tenants will be income-certified, with a potential rent adjustment to reflect the household's income level when their current lease expires, and a new lease term begins. MidPen staff is currently auditing tenant files to create a rectification process for the development. No tenants will be displaced, including tenants who are income-certified up to and above 120 percent AMI. As units occupied by tenants above the 80 percent AMI threshold become vacant, they will be rented to these lower income households, thus deepening the affordability of the building over time without any tenant displacement. Also, the Regulatory Agreement and Amended and Restated Ground Lease, together with the marketing plan proposed by MidPen, will result in restricting the affordability of the units to low-income households. In addition, on November 25, MidPen opened the marketing period for seven vacant units at 2000 S. Delaware, which will be rented to households at or below 80 percent AMI. Applications for available units will be accepted starting the week of December 2, 2024.

Regional Housing Needs Allocation (RHNA) Credit

State law allows for some preserved units to be counted towards a portion of a jurisdiction's Regional Housing Needs Allocation, or RHNA. In order to qualify, the preservation project must meet certain criteria, including restricting the units to low or very-low-income households for a minimum 55-year period and receiving "committed assistance" from the jurisdiction in the form of funds or in-kind assistance. In general, "acquisition/conversion" projects may qualify for RHNA credit, but this typically involves converting market-rate units to deed-restricted units. However, staff is still researching whether some units at 2000 S. Delaware could be counted towards the RHNA in the 2024 Annual Progress Report (APR).

BUDGET IMPACT:

The Loan to MidPen for 2000 S. Delaware will require an appropriation of \$500,000 from the General Fund Housing Set-Aside, which has a fund balance of approximately \$6.87 million. The Resolution appropriating these funds is provided as Attachment 1.

ENVIRONMENTAL DETERMINATION:

This action is not a project subject to CEQA, because it can be seen with certainty that approval of loan documents, a regulatory agreement, a ground lease and a supplemental appropriation related to an existing residential building will not cause a physical change in the environment. (Public Resources Code Section 21065.)

NOTICE PROVIDED:

All meeting noticing requirements were met.

ATTACHMENTS

- Attachment 1 — Proposed Resolution
- Attachment 2 — Regulatory Agreement
- Attachment 3 — Loan Agreement
- Attachment 4 — Deed of Trust
- Attachment 5 — Promissory Note
- Attachment 6 — Amended and Restated Ground Lease

STAFF CONTACT

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