



County of San Mateo

Inter-Departmental Correspondence

Department: HOUSING

File #: 16-213

Board Meeting Date: 6/6/2017

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: Ken Cole, Director, Department of Housing
Subject: **Measure K:** Stopgap Funding for Atherton Court Apartments

RECOMMENDATION:

Measure K: Adopt a resolution:

- A) Authorizing a loan to MidPen Housing in the amount of \$2,546,000 to support the financing and renovation of real property located at 3752-3770 Rolison Road, also known as Atherton Court, in Redwood City; and
- B) Authorizing the Director of the Department of Housing, or the Director's designee, to execute a loan agreement with MidPen Housing supporting the financing of Atherton Court in Redwood City, as approved by County Counsel.

BACKGROUND:

On June 28, 2016, the Board of Supervisors adopted a resolution to allocate \$10 million in **Measure K** funding to establish the Affordable Rental Acquisition and Preservation Program (ARAPP) to support the acquisition and preservation of apartment buildings rented at below-market rates in San Mateo County. The first ARAPP loan of \$5,883,211 was made to MidPen Housing (MidPen) in December 2016 to support its acquisition of a property known as Atherton Court, located at 3752-3770 Rolison Road in Redwood City. The 55-unit complex was known to house many clients of County service agencies, and the seller had received numerous purchase offers each of which required that the property be delivered vacant. Many Atherton Court residents would likely have been rendered homeless upon eviction which made the acquisition a priority for ARAPP funding. Following the acquisition of Atherton Court in December 2016, MidPen began life safety repairs and now seeks to apply for Low Income Housing Tax Credits (LIHTC) in June 2017 to allow substantial renovations to begin in early 2018.

Since acquiring the complex, MidPen and supportive services provider Abode Services have engaged with tenants and discovered a need for additional supportive services. MidPen will construct supportive services offices and rent vacancies to more County clients beyond those

already in place (currently more than half of the units), operating the complex as a true supportive housing project with onsite supportive services supplementing County case management. To further this initiative, MidPen applied for and received an allocation of eight project-based VASH (Veterans Affairs Supportive Housing) vouchers this spring to house and support eight homeless veterans.

In addition to updating the scope of work and building population, MidPen had to change its funding projections from two permanent funding sources. First, due to the possibility of corporate tax rate reductions, the LIHTC market has softened since December, resulting in reduced pricing of roughly 15 percent for the credits. Second, numerous tenants were found to be recipients of special tenant-based rental assistance programs that come paired with supportive services for persons with special needs. These vouchers cannot be converted to project-based contracts. Banks will underwrite income from project-based contracts which typically carry 15-year terms, but not from tenant-based vouchers which, by definition, may leave the building at any time. For this reason, the projected private mortgage also decreased.

MidPen applied for funding from the City of Redwood City and was just awarded \$1.1M from the City's impact fees fund which will be applied to the resulting gap. MidPen also applied for \$540,000 from the Federal Home Loan Bank's Affordable Housing Program (AHP). AHP awards will be announced later this summer, and would be used to directly reduce the County's loan contribution.

DISCUSSION:

MidPen is currently requesting \$2,546,000 of stopgap ARAPP funding. In addition to possible reduction of the County's loan from an AHP award, MidPen will also seek to reduce the County's contribution if the LIHTC market improves or if additional project-based vouchers can be located at the complex, which could occur through apartment turnover during the next two years. This \$2.546M funding request assumes the worst-case scenario with no AHP, significantly reduced tax credit pricing, and the minimum number of project-based rental assistance vouchers. MidPen submitted the request with these projections in order to apply for 9% LIHTC in June. In order to apply for LIHTC, applicants must present a complete budget with no funding gaps. An award in this tax credit round would allow building renovations and construction of supportive service offices to begin in early 2018. MidPen has returned excess funding to the County in the past, including over \$3M at Half Moon Village due to strong LIHTC equity pricing and receipt of additional project-based rental assistance.

The acquisition and rehabilitation of Atherton Court meets the goals of the **Measure K**-funded ARAPP loan program, including preserving naturally affordable rental housing, minimizing displacement, preventing homelessness, housing low- and extremely-low income tenants, and leveraging other public and private sources of funding, including tax credits, funds from the City of Redwood City, owner equity, private debt, and possibly the Federal Home Loan Bank. The project goes above and beyond ARAPP requirements for housing County clients with special needs and will improve the quality and condition of 55 units of existing affordable rental housing for the long term with deed restrictions effective for a period of 55 years.

This memorandum and attached resolution have been approved by County Counsel. All loan documents will also be approved by County Counsel.

Approval of this resolution contributes to the Shared Vision 2025 outcome as a Livable Community by ensuring that rental units remain affordable to lower income residents of San Mateo County.

PERFORMANCE MEASURES:

Measure	FY 2016-17 Actual	FY 2017-18 Projected
Acquire and preserve 55 units of affordable housing	55 rental housing units acquired	Continued preservation of affordability

FISCAL IMPACT:

This proposal will utilize a maximum of \$2,546,000 from ARAPP, a **Measure K**-funded program.