



County of San Mateo

Inter-Departmental Correspondence

Department: HOUSING

File #: 16-359

Board Meeting Date: 7/11/2017

Special Notice / Hearing: None

Vote Required: Majority

To: Honorable Board of Supervisors

From: Ken Cole, Director, Department of Housing

Subject: Loan agreement with HEART of San Mateo County for \$5 million

RECOMMENDATION:

Measure K: Authorize the Director of the Department of Housing to execute a \$5 million loan agreement with Housing Endowment and Regional Trust (HEART) of San Mateo County for the purpose of making housing development, preservation, acquisition, and rehabilitation loans to non-profit and for-profit developers and educational institutions.

BACKGROUND:

Measure K is the half-cent general sales tax initially approved by San Mateo County voters in November 2012, and extended in November 2016 for a total of thirty years. The Board and County staff have conducted study sessions and community outreach efforts to inform priorities for **Measure K** spending.

On May 16, 2017, the Board approved the **Measure K** Allocation Plan and Affordable Housing Plan for Fiscal Years 2017-19, during which time the County anticipates **Measure K** receipts of approximately \$80 million annually. The plan includes allocations for affordable housing of \$40.5 million with a sub-allocation to HEART in the amount not to exceed \$5 million for the purpose of making housing-related loans.

DISCUSSION:

County of San Mateo will loan \$5 million to HEART on the condition that the full sum of the loan be used for the sole purpose of making loans to non-profit and for-profit organizations and educational institutions for the development or preservation of affordable and workforce housing projects, as described in more detail in Exhibit A of the agreement. Upon request, the County will remit funds to HEART's account at the County Pool. HEART will request these funds from time to time as it makes loans for projects eligible under the Agreement's guidelines.

HEART may use the loan to make two types of loans: 1) predevelopment, acquisition, construction, and bridge loans that are consistent with the terms of HEART's QuickStart Loan Program

("Development Loans"), and 2) preservation, acquisition, and rehabilitation loans. Development loans may be made for multifamily rental and ownership developments for residents with up to 120 percent of Area Median Income (AMI). Preference will be given to multifamily rental projects with greater levels of affordability and larger numbers of units. The full \$5 million of the County loan may be used for such development loans. Preservation, acquisition, and rehabilitation loans may be made for affordable and workforce multifamily rental developments, with preference given to projects providing larger numbers of units. HEART may use up to \$2 million of the County loan for preservation, acquisition, and rehabilitation loans. Both types of loans are for a five-year term. Affordability restrictions shall be for a minimum of 55 years for rental projects and 45 years for ownership projects.

HEART shall commit the full \$5 million to projects within two years of the beginning of the Agreement, or by July 10, 2019. HEART shall repay all funds that constitute any portion of the principal within five years of the date that such funds are remitted by the County to HEART. In addition, HEART shall pay interest to the County on the loan on an annual basis equal to the amount of interest that all loan funds remitted to HEART would have earned had they been invested in the San Mateo County Pooled Investment Fund (the "Treasury Pooled Rate").

The HEART Board considered and approved the terms of the loan at its June 28, 2017 meeting. However, because the HEART Board's bylaws require a super majority of board members to be present to approve any borrowing, the quorum present for the meeting was technically insufficient to incur the debt. It is the intention of HEART staff to re-introduce the Loan Agreement at the HEART Board's meeting on July 26, 2017 meeting for the required approval. The Director of the Department of Housing requests authority to execute the Loan Agreement once the HEART Board has formally approved the Loan Agreement and it has been executed by HEART.

County Counsel has reviewed and approved the Resolution as to form. This project supports the San Mateo County Shared Vision 2025 goals of creating livable communities by increasing the supply of affordable and workforce housing through access to housing development, acquisition, preservation, and rehabilitation loans.

PERFORMANCE MEASURES:

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| Number of housing units funded by project type (new construction, rehabilitation, acquisition, other preservation), unit size, and income level |
| Number of units reserved for special needs households including seniors, people with disabilities, veterans, formerly homeless |
| Leverage of HEART funds in HEART-funded projects (other sources committed/projected) |

FISCAL IMPACT:

Measure K funds in the amount of \$5 million for purposes of the loan to HEART have been included in the Department of Housing's FY 2017-19 Budget.

ATTACHMENT - Loan Agreement