



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

File #: 21-075

Board Meeting Date: 1/26/2021

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: Michael P. Callagy, County Manager
Subject: Compensation Agreement with City of San Mateo

RECOMMENDATION:

Adopt a resolution authorizing the execution of a compensation agreement pursuant to Health and Safety Code § 34180(f) with the City of San Mateo regarding the disposition of former Redevelopment Agency properties at 480 East Fourth Avenue and 400 East Fifth Avenue in the City of San Mateo.

BACKGROUND:

In 2012, the State of California enacted legislation that required the dissolution of approximately 400 Redevelopment Agencies (AB 26, AB1484). In accordance with that legislation, the Redevelopment Agency of the City of San Mateo (RDA) was dissolved and the City of San Mateo ("City") elected to serve as Successor Agency. In its capacity as the Successor Agency, the City prepared a Long Range Property Management Plan (LRPMP) to address the disposition of the former redevelopment properties which has been approved by the RDA Oversight Board and the California Department of Finance (DOF). The LRPMP calls for the properties at 480 East Fourth Avenue and 400 East Fifth Avenue, which are currently used as surface parking lots containing 235 public parking spaces, to be transferred by the Successor Agency to the City for future development.

The approved LRPMP states that the City will enter into a compensation agreement with the affected taxing entities (including the County) prior to the City's disposition of the properties and provide for any net proceeds of sale to be distributed as property taxes to the affected taxing entities and that the purchase price to be paid for the properties will be not less than the fair reuse value of the properties with the covenants, conditions, and development costs authorized pursuant to a Disposition and Development Agreement, as determined by formal action of the City Council. Per the LRPMP, Oversight Board and DOF approval of the compensation agreement is not required.

In September 2017, the City issued a Request for Proposal to select a developer to construct housing and a public parking garage on the properties located at 480 East Fourth Avenue and 400 East Fifth Avenue. MidPen Housing Corporation (the "Developer"), a local non-profit affordable housing developer, was selected through the competitive process for a public-private partnership.

The proposed project includes the development of 225 units of multi-family rental housing for low income households on 480 East Fourth Avenue and a parking garage on 400 East Fifth Avenue containing roughly 696 parking spaces, including 164 spaces for exclusive use of the housing development, 235 replacement public parking spaces, and up to 297 additional public parking spaces for Downtown San Mateo. The public parking garage will be operated by the City once completed. Since the housing project provides less than one dedicated space of parking for each unit, the residents of the housing development will be able to use the public parking spaces during nights and weekends.

The residential development will provide much needed affordable housing for San Mateo County in the transit and amenity-rich environment of Downtown San Mateo. The housing will serve a range of affordable income levels with the maximum allowed income being for households earning up to 80 percent of Area Median Income. Additionally, 25 percent of the housing units will have a preference for public employees, including County employees.

The City and the Developer entered into a Disposition, Development, and Loan Agreement (DDLA) to govern the development of the project. Under the terms of the DDLA, the City will ground lease 480 East Fourth Avenue to the Developer for one dollar per year for a term of 99 years for the construction of the low income housing, will retain ownership of 400 East Fifth Avenue, and will enter into an appurtenant easement dedicating 164 spaces in the parking garage for the term of the ground lease for the housing development. The disposition of the Properties under the DDLA is at the time that the Developer obtains their building permits and closes escrow on construction financing.

The Developer's construction and operation of the development is not financially feasible without the City's financial assistance. The DDLA will require the City to contribute \$12,500,000 in direct financial assistance to the project, including \$5,000,000 for the construction of the net additional public parking and \$7,500,000 for the affordable housing. Additionally, the City will waive internal development review and plan check fees for the project, which total roughly \$1,800,000.

The City commissioned a Reuse Appraisal of the Properties in June 2020 in accordance with California Health and Safety Code Section 33433 to estimate the fair reuse value of the Properties that are to be conveyed to the Developer. The Reuse Appraisal concluded that the reuse value of the properties is zero and that without the City's financial contribution to the project, the project would have a significant funding gap and the reuse value would be negative.

DISCUSSION:

The City of San Mateo has requested that the County and other affected taxing entities enter into a compensation agreement ("Compensation Agreement") with the City regarding the disposition of the two former Redevelopment Agency properties in Downtown San Mateo at 480 East Fourth Avenue and 400 East Fifth Avenue. The County is one of nine taxing entities, other than the City itself, that received a share of the property tax revenue from the former Redevelopment Agency of the City of San Mateo. The other affected taxing entities are San Mateo-Foster City School District, San Mateo Union High School District, San Mateo County College District, San Mateo County Office of Education, Bay Area Air Quality Management District, Peninsula Health Care District, San Mateo Harbor District, and San Mateo County Mosquito and Vector Control District.

As the reuse value of the Properties has been appraised at zero, the proposed Compensation Agreement outlines that there will be no net disposition proceeds from the disposition of the properties to distribute among the taxing entities. The City does not anticipate that the public parking garage will generate any net operating revenues. However, following discussions with the County, the Community College District, and the San Mateo Union High School District, the City has agreed to share any net revenues from the garage with the taxing entities for a period of 30 years based on their percentage share of the property tax from the former Redevelopment Area, once the City has been repaid its \$5,000,000 direct investment in the garage. The County's share will be 20.08 percent if any net revenues are available to be paid.

On August 17, 2020, the City Council approved the entitlement application and the DDLA. The City sent a letter requesting that the taxing entities approve the Compensation Agreement on August 30, 2020. If the taxing entities do not agree to the Compensation Agreement, the City has indicated that it will be in default of its obligations and the project will not be able to move forward. The City has indicated that all of the taxing entities have expressed a willingness to enter into the Compensation Agreement.

County Counsel has reviewed and approved the resolution and the Compensation Agreement as to form.

FISCAL IMPACT:

There is no Net County Cost to the County associated with entering into the Compensation Agreement. Although there are no net disposition proceeds from the initial disposition of the properties to distribute to the County, the County will be entitled to receive a 20.08 percent share of net revenues produced by the public parking garage operation, after the City has been repaid for its \$5,000,000 direct investment in the garage.