



County of San Mateo

Inter-Departmental Correspondence

Department: HOUSING

File #: 21-233

Board Meeting Date: 3/23/2021

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: Raymond Hodges, Director, Department of Housing
Subject: Affordable Housing and Property Disposition Agreement, Ground Lease and Loan Documents for Middlefield Junction - Parcel "A" Mixed-Use Affordable Rental Housing Development Project

RECOMMENDATION:

Measure K: Adopt a resolution:

- A) Authorizing the Director of the Department of Housing, or designee, to execute and implement an Affordable Housing and Property Disposition Agreement with Mercy Housing California 96, L.P. and any and all documents necessary to implement the same, including a Ground Lease to Mercy Housing California 96, L.P., for its development and subsequent operation of a mixed-use affordable rental housing development ("Project") on County property located at 2700 Middlefield Road in the North Fair Oaks neighborhood of unincorporated San Mateo County ("Property"); and
- B) Authorizing the Director of the Department of Housing, or designee, to execute any loan documents ("Loan Documents") required for the County to provide a loan to Mercy Housing California 96, L.P. in a total amount not to exceed \$10,972,133 with a term of fifty-five (55) years at an interest rate of three percent (3%) for the purpose of providing funding for predevelopment activities and construction for the Project on the condition that an affordability covenant will be recorded against the Property restricting rental to and occupancy of all Project units (other than two management units) to income-restricted households.

BACKGROUND:

The Middlefield Junction Parcel "A" Mixed-Use Development is located on a vacant undeveloped 3.2-acre parcel of property (APN: 054-113-140) at 2700 Middlefield Road in the North Fair Oaks neighborhood of unincorporated San Mateo County, which the County acquired by grant deed on September 30, 2014 (the "Property").

On July 10, 2018, the County of San Mateo issued a Request for Proposals ("RFP"), soliciting

qualifications and proposals from experienced developers to develop a mixed-use project that is consistent with the goals and policies of the North Fair Oaks Community Plan, references the Master Plan, includes a minimum of 100 units of affordable housing and a minimum of 3,000 square feet of community-serving uses, including a childcare facility (“Project”). Mercy Housing California (“Mercy Housing”) was selected as the developer for the Project at the conclusion of this RFP process.

Pursuant to Resolution No. 076375 from this Board, on March 4, 2019, the County executed an Exclusive Negotiating Rights Agreement (“ENRA”) with Mercy Housing by which it agreed to a negotiating period from March 4, 2019 until November 3, 2019 to provide a timeframe for Mercy Housing to undertake due diligence and predevelopment activities and for Mercy Housing and the County to negotiate an Affordable Housing and Property Disposition Agreement (“AHPDA”), including a long-term ground lease (“Ground Lease”).

Pursuant to administrative authority granted in the ENRA, (i) on October 30, 2019, the Director of the Department of Housing (“DOH Director”) agreed to an administrative extension of the negotiating period from November 4, 2019 until January 28, 2020, and (ii) on January 6, 2020, the DOH Director executed a First Amendment to the ENRA to facilitate Mercy Housing’s qualification to apply for affordable housing funding opportunities from the State of California Infill Infrastructure Grant Program, the No Place Like Home Program, and the Affordable Housing, Sustainable Communities Program, and which further extended the negotiating period under the ENRA from January 29, 2020 until July 31, 2020.

On July 21, 2020, pursuant to Resolution No. 077623 from this Board, the County executed a Second Amendment to the ENRA, extending the negotiating period from August 1, 2020 until November 20, 2020. Pursuant to administrative authority granted in the Second Amendment to the ENRA, the DOH Director agreed to an administrative extension of the negotiating period under the ENRA from November 21, 2020 until December 31, 2020 to allow the parties to continue negotiating the terms of the AHPDA.

Pursuant to Resolution No. 077904 from this Board, on December 8, 2020, the County executed a Third Amendment to the ENRA, which further extended the negotiating period through February 28, 2021. Pursuant to administrative authority granted in the ENRA, on February 28, 2021, the DOH Director agreed to the final administrative extension for the negotiating period under the ENRA to March 31, 2021 to allow the parties to complete negotiations of the AHPDA.

DISCUSSION:

DOH staff and Mercy Housing have successfully negotiated the terms of the AHPDA, pursuant to which (1) the County will Ground Lease the Property to Mercy Housing California 96, L.P. (the “Mercy Partnership”) for a term of ninety-nine (99) years for construction of the Project improvements and subsequent operation of the Project; and (2) the Mercy Partnership will develop and operate thereon an affordable rental housing development containing 179 rental dwelling units with all but two of such units restricted for rental to and occupancy by income-restricted households, an approximately 10,000 square foot childcare center and a 3,000 square foot community serving space.

In addition, the County will provide a loan of \$10,972,133 awarded through the County’s Affordable Housing Fund Rounds 7.0 and 8.0, which the Mercy Partnership will use to conduct due diligence, design the site, prepare the construction drawings and as one source of construction financing,

The County loan funds committed to this Project will carry a fifty-five (55) year term, at three percent (3%) interest and will guarantee that fifty-six (56) of the units will be reserved for persons or

households earning at or less than thirty percent (30%) of area median income ("AMI"), twenty (20) of the units reserved for persons or households who are homeless or at-risk of becoming homeless, fifty-three (53) of the units are reserved for persons or households earning at or less than fifty (50%) percent of AMI, forty-seven (47) of the units are reserved for persons or households earning at or less than sixty percent (60%) of AMI, and twenty-two (22) units will be reserved for persons or households earning up to eighty percent (80%) of AMI.

The Ground Lease of the Property to the Mercy Partnership for the development and operation of the Project, the provision of the County loan for predevelopment and construction financing for the Project, and the development and subsequent operation of the Project by the Mercy Partnership are in furtherance of the County's goals to provide permanent affordable housing and are in the best interests of the County and the welfare of its residents.

This resolution, the AHPDA, and the Ground Lease have been reviewed and approved as to form by County Counsel. The Loan Documents will be reviewed and approved as to form by County Counsel.

FISCAL IMPACT:

The fiscal impact of this action will be a commitment of up \$6,919,525 of Moving To Work funds that have been awarded through the County's Affordable Housing Fund Notices of Funding Availability in Round 7.0, up to \$1,850,000 of **Measure K** funds, up to \$150,000 of County Impact Fees and \$2,052,608 of Housing for Healthy California funding from the County's Affordable Housing Fund Notice of Funding Availability NOFA Round 8.0 for a total County commitment of \$10,972,133.