County of San Mateo

Inter-Departmental Correspondence

Department: HOUSING
File #: 21-350 Board Meeting Date: 5/4/2021

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Raymond Hodges, Director of Department of Housing

Subject: Amendments to Loan Documents between County and EPA Woodlands Associate, L.P.

RECOMMENDATION:
Adopt a resolution authorizing the Director of the Department of Housing, or designee, in consultation with County Counsel, to negotiate and execute amendments to existing Deed of Trust and Assignment of Rents, Declaration of Restrictive Covenant, Loan Agreement and Promissory Note (collectively, "Loan Documents") memorializing a loan to EPA Woodlands Associates, L.P., for the purpose of developing affordable rental housing in Menlo Park in a total amount of $190,000 for a term of fifty-five (55) years from January 7, 1992 to January 7, 2032 to (a) become a residual receipts loan accruing three (3) percent simple interest beginning January 1, 2020, (b) forgive accrued interest in a total amount of $834,862, and (c) extend the maturity of the loan from 2032 to 2075 and the effective term of the Affordability Covenant an additional 55 years from January 1, 2020.

BACKGROUND:
EPA Woodlands Associates, L.P., a California limited partnership ("Borrower"), is the owner of an affordable housing project for families in the City of Menlo Park. The six (6) unit project, known as "Willow Court," is located at 1141 Willow Road in the City of Menlo Park (APN: 062-09-3470) ("Property") and consists of two (2) buildings that were built in 1992.

In 1992, the County made a loan to Borrower in the total amount of $190,000 in Community Development Block Grant ("CDBG") funds to assist with the development of Willow Court ("Loan"). The Loan is set to mature on January 7, 2032, and currently bears an interest rate of 6% per annum with unpaid interest compounding on annual basis. While the current principal remains $190,000, the accrued interest is $834,862.87. As outlined in the Declaration of Restrictive Covenant recorded against the Property ("Affordability Covenant"), two (2) of the units shall be rented to and occupied by or, if vacant, available for occupancy by very low-income households. Both very low-income units shall consist of four (4) bedroom units. Four (4) of the units shall be rented to and occupied by or, if vacant, available for occupancy by low-income households. Two (2) of the low-income units shall consist of two (2) bedroom units, and two (2) of the low-income units shall consist of four (4) bedroom units. All the units are restricted to very-low income and low-income households with household incomes of 50% and 60% AMI, respectively.

DISCUSSION:
Based on the cash flow, the net operating income of this Property and the number of units serving low-income households, it is not feasible for Borrower to repay the loan in full by 2032, especially with such high accrued interest. Accordingly, the County has proposed modifying the interest rate to three (3) percent simple interest, restructuring repayment so it is based on residual receipts, and extending the maturity date of the loan from 2032 to 2075, in exchange for extending the Affordability Covenant on the Property another 55 years from January 1, 2020. Since all units are restricted to very low- and low-income households with income of 50% and 60% AMI, the benefit of extending the maturity date will help to ensure that these units will remain affordable for an additional 55 years from January 1, 2020.

Accordingly, staff is recommending that the Board adopt a resolution authorizing the Director of the Department of Housing, or designee, to negotiate and execute an amendment the Loan Documents so that the Loan becomes a residual receipts loan at three (3) percent simple interest beginning January 1, 2020, the accrued interest in the total amount of $834,862 is forgiven, and the maturity of the Loan is extended from 2032 to 2075 with the effective term of the Affordability Covenant to cover an additional 55 years from January 1, 2020.

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

FISCAL IMPACT:
The Loan was originally funded from a CDBG allocation so there is no net County cost.