



County of San Mateo

Inter-Departmental Correspondence

Department: HOUSING

File #: 21-234

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: Agreements with MidPen Housing Corporation or Affiliated Entities related to the Operation and Management of Affordable Housing Project for Extremely Low-Income Seniors in Redwood City

RECOMMENDATION:

Measure K: Adopt a resolution:

- A) Authorizing and directing the Director of the Department of Housing, or designee, to execute an Exclusive Negotiating Agreement with MP Land Holdings, LLC, a wholly-owned and controlled subsidiary of MidPen Housing Corporation ("MidPen"), to afford the parties sufficient time to negotiate the terms of (i) a Management Agreement for the operation and management of an affordable housing project for extremely low-income seniors ("Project") at the County-owned Property located at 1000 Twin Dolphin Drive in Redwood City to MidPen Housing Corporation ("Property"), and (ii) an agreement to transfer to MidPen, or a wholly-owned and controlled subsidiary of MidPen, an ownership interest in the Property (i.e. land and/or improvements) at such time that the Project has achieved sustainable operations or as the Parties may mutually agree; and
- B) Authorizing and directing the Director of the Department of Housing, or designee, in consultation with County Counsel, to negotiate and execute a Management Agreement for MidPen, or a wholly-owned and controlled subsidiary of MidPen, to operate and manage the Project, and any and all documents necessary to implement the same; and
- C) Authorizing and directing the Director of the Department of Housing, or designee, in consultation with County Counsel, to negotiate and execute an agreement to transfer to MidPen, or a wholly-owned and controlled subsidiary of MidPen, an ownership interest in the Property (i.e. land and/or improvements) at such time that the Project has achieved sustainable operations or as the Parties may mutually agree, and any and all documents necessary to implement the same.

BACKGROUND:

The Homekey Program (“Homekey”), administered by the California Housing and Community Development Department (“State HCD”), provided funding to rapidly sustain and expand the inventory of housing for people experiencing homelessness or at risk of homelessness and impacted by COVID-19. Homekey presented an opportunity for local public agencies to purchase motels and a broad range of other housing types in order to increase community capacity to respond to homelessness and the ongoing COVID-19 pandemic.

Last year, State HCD was authorized to provide approximately \$550 million in Homekey funding derived from the State’s direct allocation of federal Coronavirus Relief Fund (CRF) and \$50 million in State General Fund to assist local public agencies in the acquisition of, and provide initial operating subsidies for, Homekey sites to promote project feasibility.

With your Board’s authorization (Resolution No. 077826), the County applied for and received a funding award from the Homekey Program to help finance the acquisition of a 95-unit hotel called TownePlace Suites, located at 1000 Twin Dolphin Drive in Redwood City (APN:095-222-230) (“Property”) for the purpose of providing permanent affordable housing to some of the County’s most vulnerable residents, including those who have experienced homelessness, those at-risk of experiencing homelessness, and extremely low-income seniors.

On November 5, 2020, your Board authorized the County to negotiate the terms of a Purchase and Sale Agreement and acquire the Property, using Homekey Program funds and local CARES Act funds (Resolution No. 077825). The County conducted necessary due diligence and determined the Property was in good condition, closed escrow and assumed title to the Property on December 3, 2020.

The County intends to use the Property as permanent affordable housing exclusively for extremely low-income (ELI) seniors (62+ years of age) earning less than 30% of the area median income as well as seniors who may have experienced homelessness or are at risk of experiencing homelessness, including seniors receiving wrap around services through programs like the County’s Whole Person Care Program and medically frail seniors.

Accordingly, on December 22, 2020, the Department of Housing issued a Request for Qualifications (“RFQ”) in order to solicit Statements of Qualifications from affordable housing developers and service providers, with extensive experience owning, operating, managing and maintaining affordable senior housing as well as providing high-quality resident services and supportive services to seniors, to serve as the operator/manager of the Property.

On February 16, 2021, the selection committee chose MidPen Housing Corporation (“MidPen”) as the operator and manager of the Property because MidPen possesses the experience and skills necessary to identify and secure long-term funding for the Property, to utilize a thoughtful approach in working with the local community and neighborhood groups, and to provide the services the residents of the affordable housing development will need to remain stably housed and have a positive impact upon the surrounding community.

DISCUSSION:

On February 23, 2021, staff sought and obtained from your Board authorization (Resolution No. 078030) for the Director of the Department of Housing (“DOH”), or designee, (i) to execute an Exclusive Negotiating Agreement with MidPen to afford the parties sufficient time to negotiate the terms of an Operator Agreement, a Lease Agreement and all documents evidencing and securing a

start-up loan related to operation and management of the Project, and (ii) in consultation with County Counsel, to negotiate and execute an Operator Agreement, a Lease Agreement and all documents evidencing and securing a start-up loan in a total amount not to exceed \$1,500,000 in Measure K funds, with MidPen Housing Corporation, related to the operation and management of the Project.

Since then, the County and MidPen commenced negotiations. However, the parties have agreed to modify the structure of the transaction, subject to your Board's approval, to better ensure that MidPen can meet the swiftly approaching deadlines established by the State Homekey Program and agreed to by the County (i.e. 50% occupancy of the Project by April 23, 2021 and 100% occupancy by June 3, 2021). In this modified transaction, the County would still retain ownership of the Property in the near term, but MidPen would be legally able to operate the Project on the County's behalf on a more expeditious timeline and the County would be able to more efficiently provide the start-up funds necessary for MidPen to operate and manage the Project. In addition, changing the structure of the transaction this way is more equitable - MidPen would not have to incur debt in the form of a \$1,500,000 loan from the County without obtaining an ownership interest in either the land or the improvements on the Property.

The parties will still execute an Exclusive Negotiation Agreement ("ENA") related the Project, but the legal documents being negotiated will now seek to memorialize the modified transaction. During the term of the ENA (the "ENA Period"), the parties will negotiate a Management Agreement, in consultation with their respective counsel, setting forth the responsibilities of the parties related to the operation and management of the Project. For instance, as the operator of the Project, MidPen will be responsible for maintaining a balanced budget; undertaking all property management activities, including but not limited to, leasing up, working with County referral agencies, collecting rent and enforcing house rules; and providing robust resident and supportive services appropriate for extremely low-income seniors. The Management Agreement will include a Project budget and shared expense account or other similar mechanism that allows MidPen to access the \$1,500,000 in start-up funding being provided by the County for the operation and management of the Project.

During the ENA Period, in consultation with their respective counsel, the parties will also negotiate an agreement to transfer to MidPen, or a wholly-owned and controlled subsidiary of MidPen, an ownership interest in the Property (i.e. land and/or improvements) at such time that the Project has achieved sustainable operations, or as the Parties may mutually agree, and in a form sufficient to allow MidPen to demonstrate clear site control and apply for future project funding during the initial operating period covered under the Management Agreement.

This resolution and ENA have been reviewed and approved as to form by County Counsel.

FISCAL IMPACT:

The financial impact of this action will be a commitment of \$1,500,000 of Measure K funds for the Start-Up Loan.