



County of San Mateo

Inter-Departmental Correspondence

Department: HOUSING

File #: 22-907

Board Meeting Date: 11/15/2022

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: Raymond Hodges, Director, Department of Housing
Subject: Rehabilitation of Nugent Square Apartments

RECOMMENDATION:

Adopt a resolution authorizing and directing the Director of the Department of Housing, or designee, to:

- A) Negotiate and execute amendments to the existing 2003 loan agreement and related documents between the County and Nugent Square Partners, LP, to facilitate both the transfer of the Nugent Square Apartments to a new ownership entity and the recapitalization and rehabilitation of the Nugent Square Apartments; and
- B) Assign the existing 2003 County loan agreement and related documents to a new ownership entity, Nugent Square Partners II, LP; and
- C) Negotiate, amend, and execute any other documents necessary to facilitate the recapitalization of the Nugent Square Apartments.

BACKGROUND:

In 2003, the County provided a \$2,605,240 Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) loan to Nugent Square Partners, LP, a California limited partnership controlled by Eden Housing, Inc. and East Palo Alto Community Alliance and Neighborhood Development Corporation (EPA Can Do) (jointly, the "Developer") to facilitate construction of the Nugent Square Apartments (the "Apartments"). The Apartments is a 32-unit, 100% affordable housing development constructed in 2005 and located at 2361 University Avenue in East Palo Alto. The Developer is now seeking to rehabilitate the Apartments through a recapitalization, in which new funds are brought in to preserve and improve affordable housing. As part of this recapitalization, the Developer is seeking to transfer the existing 2003 County loan agreement and related documents to a new owner, Nugent Square Partners II, LP, which is controlled by the Developer. Moreover, the existing County loan documents are proposed to be amended, with

changes, including extending the loan for a new term of 55 years and a modification of the interest rate. Interest would be paid at the Applicable Federal Rate (AFR), compounding. As of October 2022, the AFR is 3.43%. The interest rate in the existing loan is 3% simple, so the new rate would be more favorable to the County.

The County is also providing \$3,500,000 of new financing to the project, with \$1,500,000 in FY 2022-23 CDBG funds, and \$2,000,000 in Affordable Housing Fund (AHF) 9.0 funds (\$1,390,304 Permanent Local Housing Allocation (PLHA) funds and \$609,696 in Measure K funds). The AHF funds were authorized by the Board on October 19, 2021, via Resolution No. 078476, and the CDBG funds were authorized by the Board on May 3, 2022, via Resolution No. 078855.

The scope of work for the proposed rehabilitation includes improvements to the building envelope, in-unit improvements to kitchens and bathrooms, energy-efficiency improvements, landscaping, and the replacement of the roof and existing playground. The anticipated closing of the construction loan is December 2022, with construction beginning the same month after closing.

DISCUSSION:

With this transaction, the County would transfer the existing outstanding loan balance of approximately \$3,581,874 to the new limited partnership, Nugent Square Partners II, LP, that will own the development upon close of construction financing. The new County funding committed to the project would be made available to the partnership at close of construction financing. The City of East Palo Alto will also support the project by recommitting a \$1,100,000 loan made to the Developer in 2003.

Recommitting the previous County funding and providing new funding will help facilitate the rehabilitation of the Apartments, thereby improving the living situation for tenants. In connection with the new County funding, affordability covenants that income-restrict the development will be placed on Nugent Square for 55 years from the completion of the rehabilitation work, which will help preserve the affordability of the development.

FISCAL IMPACT:

The increased interest rate from 3% simple to the applicable federal rate compounding will result in a larger interest payment and revenue for the County at loan maturity. There is no other net fiscal impact for the County.