



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY EXECUTIVE

File #: 23-630

Board Meeting Date: 7/25/2023

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: Michael P. Callagy, County Executive
Subject: Memorandum of Understanding with City of Half Moon Bay Regarding Affordable Housing Development and Lease/Leaseback Transaction

RECOMMENDATION:

Adopt a resolution:

- A) Authorizing and directing the County Executive, or designee(s), to negotiate and execute a Memorandum of Understanding (MOU) between the County of San Mateo and the City of Half Moon Bay regarding development of an affordable housing project at 880 Stone Pine Rd., Half Moon Bay, CA 94019; and
- B) Authorizing and directing the County Executive, or designee(s), to negotiate and execute a Lease Agreement and Sublease Agreement with the City of Half Moon Bay under which the County of San Mateo would make a one-time lease payment to the City of Half Moon Bay in an amount not to exceed \$3,200,000 to be repaid by the City of Half Moon Bay under a sublease with interest at a rate of 3.13% per annum over a term of 10 years; and
- C) Authorizing and directing the County Executive, or designee(s), to execute, on behalf of the County of San Mateo, all notices, options, consents, approvals, terminations, and documents associated with the Lease Agreement and Sublease Agreement, and the taking of all necessary actions in connection therewith.

BACKGROUND:

A. Affordable Housing Development and Cooperation

There is a critical lack of affordable housing for low-income residents throughout San Mateo County, including the Coastsides. Indeed, San Mateo County's Regional Housing Needs Assessment (RHNA) requires the development of nearly 20,000 "Very Low Income" and "Low Income" units for the 2023-2031 cycle. Thus, the County has an interest in, and serves a public purpose by, supporting the

development of affordable housing for San Mateo County residents, especially our most vulnerable low-income families.

According to HCD, California farmworkers earn, on average, approximately \$20,000 a year, which is less than 20% of San Mateo County's area median income, making farmworkers and their families among the most economically vulnerable members of our community. This vulnerability has been exacerbated by the COVID-19 pandemic, which caused significant negative economic and health impacts for farmworkers and their families.

In furtherance of this public interest, the County and the City of Half Moon Bay (the "City") have been engaged in discussions to develop an affordable housing project that would assist individuals and families on the Coastsides, including farmworkers and their families displaced by the mass shooting event that occurred earlier this year in Half Moon Bay. At the same time, the County has received a \$5,000,000 grant from the Joe Serna, Jr. Farmworker Housing Grant Homeownership Program ("the Serna Grant") to purchase manufactured homes for low-income farmworker families.

The County and the City have identified a portion of City-owned property located at 880 Stone Pine Rd., Half Moon Bay, CA 94019 (the "Site") as a potential location for affordable housing which may include development of a mobile home park with manufactured homes purchased using the Serna Grant proceeds. The Site, however, is currently encumbered by a loan in the amount of \$3,200,000 that the City received from the California Infrastructure and Economic Development Bank (the "iBank Loan"), which prevents development of affordable housing at the Site.

B. Lease/Leaseback Transaction as Means of Financing

Pursuant to State law, the County may provide financial assistance to cities within San Mateo County under the terms and conditions of certain lease transactions of real property situated within the County. Under the transactions, the County may enter into agreements with cities to lease local real property to secure repayment to the County with interest via a sublease back of the property. These transactions enable the County to provide funds while securing repayment to the County via property tax apportionment, with interest.

Under this legal framework, the City has requested that the County make funds available to the City under a lease/leaseback transaction. The City has committed to use the funds generated through the transaction to discharge the iBank Loan, thus making the Site available for development of an affordable housing project.

DISCUSSION:

The County and the City wish to cooperate and collaborate on certain activities in connection with the development of affordable housing on the Site. To that end, staff recommends that the Board authorize the County Executive, or designee(s), to enter into an MOU with the City.

Under the proposed MOU, the City would agree to take steps as necessary to sufficiently clear title to the Site of any encumbrances, liens, and/or other claims that would preclude or limit use of the Site for affordable housing, including among other items, to discharge the iBank Loan and to divide or subdivide the property into a parcel(s) to facilitate the use of the Site for affordable housing development. To discharge the iBank Loan, the City and the County would also cooperate to enter into a lease/leaseback transaction under which the County would make available to the City funds in the amount of \$3,200,000.

Therefore, staff further recommends that Board authorize the County Executive, or designee(s), to enter into with the City a Lease and Sublease Agreement (the "Lease and Sublease Agreements")

under which the City will lease to the County and the County will lease back to the City the Half Moon Bay Library. The County would be obligated to make a one-time up-front lease payment to the City in an amount not to exceed \$3,200,000, and the City will be obligated to repay the County through biannual rental payments over a lease term of 10 years, at a fixed interest rate of 3.13% per annum. The City's rental payments will be paid directly through its property tax apportionment.

Following execution of the Lease and Sublease Agreements, the County will place funds received from the City into the County's One-Time Expense Fund (formerly the Accumulative Capital Outlay Fund) where such monies may be used in connection with future lease/leaseback transactions pursuant to County Ordinance Code § 2.80.060 *et seq.* (ordinance adopted December 3, 2019).

The County Attorney's Office has reviewed and approved as to form the resolution, the proposed MOU, and the proposed Lease and Sublease Agreements.

EQUITY IMPACT:

The County is dedicated to ensuring safe affordable housing options for all San Mateo County residents, especially our most vulnerable low-income families. Approval of the MOU and Lease and Sublease Agreements will create an opportunity for development of an affordable housing project that would assist Coastsides individuals and families in need of stable housing, including farmworkers, who all contribute immensely to our communities and often face significant barriers to accessing quality housing. Staff does not expect any negative impacts from the Board's action.

FISCAL IMPACT:

The County's payment obligation under the Lease Agreement shall not exceed \$3,200,000 and such funds are available in the County's One-Time Expense Fund. The rental payments from the City under the Sublease Agreement, including interest at a fixed rate of 3.13% per annum, will total approximately \$3,730,920 over the 10-year term of the Sublease Agreement and will be deposited into the County's One-Time Expense Fund.