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Title: Report regarding approval of Second Modification to Regulatory Agreement and Declaration of Restrictive Covenants, and Second Modification of Deed of Trust and Assignment of Rents for the 1999 Willow Gardens Neighborhood Rehabilitation Project. (Deanna Talavera, Management Analyst II)

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Report regarding approval of Second Modification to Regulatory Agreement and Declaration of Restrictive Covenants, and Second Modification of Deed of Trust and Assignment of Rents for the 1999 Willow Gardens Neighborhood Rehabilitation Project. (Deanna Talavera, Management Analyst II)

RECOMMENDATION

Staff recommends that the City Council adopt a resolution authorizing the City Manager to execute amendments to the Redevelopment Agency (RDA) Regulatory Agreement and RDA Deed of Trust with Willow Gardens Housing Associates for the 1999 Willow Gardens Neighborhood Rehabilitation Project.

BACKGROUND/DISCUSSION

In 1999, the City's former RDA provided financing to assist Mid-Peninsula Housing Coalition (MidPen) to acquire and assemble nine buildings, a total of 36 units, over a six-year period. The goals were to revitalize the Willow Garden neighborhood, renovate dilapidated structures, and increase the supply of affordable housing for low-income residents. Several of the transactions for this project involved receiving low-income housing funds from County and Federal sources to replace the interim funding from the former Redevelopment Agency. When the permanent financing sources were secured, several regulatory agreements, related promissory notes, and deeds of trust were not properly executed. This issue was rectified with amendments to the City's deeds of trust and regulatory agreements that were approved by City Council in 2016. Mid-Pen has subsequently identified two additional amendments to the agreements that are necessary in order to clarify and memorialize some elements of the financing arrangement. The actions for consideration, if approved, will address the remaining issues by authorizing the City Manager to amend and execute the appropriate agreements. A more detailed explanation follows.

This effort to acquire properties in Willow Gardens occurred between 1999 and 2005 with the City, the former Redevelopment Agency, and MidPen. The first phase of the assemblage began in January 1999, when the former RDA entered into a \$3.5 million loan agreement with Willow Gardens Housing Associates, a limited liability partnership created by MidPen, to acquire and rehabilitate 17 buildings in the Willow Gardens

neighborhood. Midpen also entered into a rent regulatory agreement to maintain all of the units as affordable to low-income residents for 55 years. The City and MidPen also pursued County (HOME Investment Partnerships Program) and Federal (CDBG/Section 108) funds for the project.

Over the course of six years, nine properties were acquired. Only nine out of the 17 properties anticipated to be acquired were actually purchased by MidPen because the price of homes began to increase rapidly (due to the dot-com boom). Prices increased from \$176,000 in 1999 to more than \$1.1 million in 2005. Ultimately, seven properties were acquired with former RDA assistance and two were acquired using developer in-lieu fees.

The requested amendments to the regulatory agreement and deed of trust that are before the City Council relate to these two properties acquired using in-lieu fees. These two parcels were always intended to be included with and restricted by the RDA Regulatory Agreement and Deed of Trust with the original collateral of seven parcels. By approving these modifications, the language of the agreements will reflect that the parcels are restricted as intended. These two parcels were not included in the previous amendments in 2016, as it was determined at the time that the regulatory covenants would suffice to restrict the parcels. However, Mid-Pen subsequently determined that additional amendments are necessary to better reflect the nature of the arrangement. It is in the interest of the City and MidPen to include these parcels as additional collateral to the City's loans while also restricting their use to low-income housing by way of the RDA Regulatory Agreement.

MidPen has continued to diligently maintain the units as affordable and deed-restricted. In an effort to update the agreements to reflect current conditions, City staff has worked with MidPen to draft the proposed amendments. These amendments extend the affordability covenants to these two parcels to ensure long-term affordable use and permit the tax exemptions necessary to maintain affordable rents, while securitizing the City loan against these two parcels. The specific amendments to the RDA Regulatory Agreement and Deed of Trust include the following edits: (1) identify two additional properties that are subject to the regulatory restrictions and (2) add additional clarifying recitals to better explain the nature of the regulatory arrangement between the City and Mid-Pen. A list of the amendments that need to be approved and executed is listed below. These executions are needed in order to ensure all funding is secured against the applicable properties and that all units have the applicable rent regulatory agreements recorded against them.

1. Second Modification to RDA Regulatory Agreement and Declaration of Restrictive Covenants.
2. Second Modification of RDA Deed of Trust and Assignment of Rents.

FISCAL IMPACT

Authorization of the amendments has no impact on City budget.

RELATIONSHIP TO STRATEGIC PLAN

Executing amendments to the Redevelopment Agency (RDA) Regulatory Agreement, and RDA Deed of Trust, with Willow Gardens Housing Associates for the 1999 Willow Gardens Neighborhood Rehabilitation Project addresses the following Strategic Plan area: Strategic Plan Priority Area 2 Quality of Life, Initiative 2.3 - Promote a balanced mix of housing options in South San Francisco.

CONCLUSION

Staff recommends that the City Council adopt a resolution approving amendments to the RDA Regulatory Agreement and RDA Deed of Trust and authorizing the City Manager to execute the amendments to the RDA Regulatory Agreement and RDA Deed of Trust with Willow Gardens Housing Associates for the Willow

Gardens Neighborhood Rehabilitation Project.