



## Legislation Text

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Report regarding a resolution approving the first amendment to the loan agreement between Baden Station Investors, LLC and the City of South San Francisco to modify the terms of an existing \$4,050,000 loan for the development of 36 affordable housing units at 428-432 Baden. (*Nell Selander, Economic & Community Development Director*)

### **RECOMMENDATION**

**Staff recommends that City Council consider adopting a resolution approving the first amendment to the loan agreement between Baden Station Investors, LLC and the City of South San Francisco to modify the terms on an existing \$4,050,000 loan for the development of 36 affordable housing units at 428-432 Baden. Adopting the resolution will ensure that the development is able to break ground this month, meeting their low income housing tax credit deadline to begin construction.**

### **BACKGROUND/DISCUSSION**

Baden Station is a fully-entitled 36-unit 100% affordable housing project that is nearly ready to pull its building permit. Baden Station is comprised of two properties - 428 Baden and 432 Baden, which was an asset of the Successor Agency to the former South San Francisco Redevelopment Agency. In addition to being fully affordable, the project includes 18 units reserved for individuals with intellectual and developmental disabilities and features affordability levels of 30 to 60% of the Area Median Income (AMI) with an overall AMI average of 40% AMI (see Attachment 1 for AMI levels). The four-story building includes 23 parking spaces in the ground floor. Upon commencement of construction, these affordable units will count toward the City's 2023-2031 Regional Housing Needs Allocation (RHNA).

Originally envisioned as a market rate project by a previous developer, the project received a loan commitment of \$4,050,000 from the City of South San Francisco in the fall of 2021 to assist with converting it to 100% affordable rental housing. The loan was envisioned in two parts, a \$2 million short-term loan repayable at construction financing to assist the affordable developer in acquiring the privately owned parcel (428 Baden) and the former Successor Agency parcel (432 Baden), and a \$2,050,000 long term, residual receipts loan as is customary gap financing for affordable housing projects. The City issued the loan to the affordable developer, For the Future Housing (known as Baden Station Investors LLC for this transaction), which then acquired both properties in January 2022. A \$1,100,000 payment for 432 Baden was distributed to the taxing entities shortly after the transaction closed.

Once Baden Station Investors, LLC received the City loan, as well as a County of San Mateo loan, they were ready to apply for tax credits and proceed with building the project. They applied for 9% low-income housing tax credits through the California Tax Credit Allocation Committee in both the first and second rounds of 2022 and were able to secure an award in the highly competitive second-round. Over the course of the past year, the affordable housing finance markets have deteriorated significantly with interest rates nearly doubling and low-income housing tax credit investor yield requirements rising dramatically which has created a financing gap in project sources.

### **Requested Loan Amendment**

To close the gap in the project financing and proceed to break ground by March 27, 2023 (as required by their tax credit award), the developer is requesting that the City either write down \$1,100,000 of the short term loan as a land donation or convert \$1,100,000 of the short-term loan to long-term debt, under the same terms as the \$2,050,000 long-term portion of the previously-approved loan.

### **Staff Recommendation**

At this time, staff recommends converting \$1,100,000 of the short-term loan to long-term debt, under the same terms as the \$2,050,000 long-term portion of the previously approved loan. Under the terms of the long-term portion of the loan, the loan is due and payable 55 years from the issuance of the certificate of occupancy for the building. Annual payments are also due, totaling 50% of net residual receipts, which are gross receipts, minus operating expenses and any necessary deposits to the project's replacement reserve. The resolution, as drafted, approves and authorizes the City Manager to execute the amendment to the loan agreement, which is attached to the resolution. It also authorizes approval and execution of modifications to the Promissory Note and Deed of Trust that secure the loan. Those documents are still being revised and are not attached.

### **FISCAL IMPACT**

The \$4,050,000 loan has already been made to Baden Station Investors, LLC. The impact of adopting the resolution is that \$1,100,000 will not be repaid at construction financing and instead will be repaid through residual receipts or, at the latest, in 55 years. The remaining \$900,000 short term portion of the loan will be repaid at construction financing.

Though the City had anticipated that the \$2 million short term component of the loan would be repaid at construction financing, that funding has not been committed to any future project. Without any loan repayment, the City's Commercial Linkage Fee fund has an unencumbered cash balance of \$7.7 million as of March 1, 2023. Additionally, based on the City's current development pipeline, staff anticipates receiving Commercial Linkage Fee payments totaling roughly \$75 million over the next five years.

While converting \$1,100,000 of the short-term loan component to long term will mean a reduction in the amount immediately repaid to the City, the City does have sufficient funds on hand and anticipated to fund known affordable housing pipeline projects.

### **RELATIONSHIP TO STRATEGIC PLAN**

Supporting affordable housing, and funding for affordable housing, is in line with the City's Strategic Plan Priority #2: Quality of Life, providing a full range of housing options.

### **CONCLUSION**

Staff recommends City Council consider adopting a resolution approving the first amendment to the loan agreement between Baden Station Investors, LLC and the City of South San Francisco to modify the terms of an existing loan of \$4,050,000 for the development of 36 affordable housing units at 428-432 Baden, converting \$1,100,000 from a short-term loan component to a long-term loan component.

### **Attachments:**

1. San Mateo County TCAC Income Limits