



Legislation Text

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Report regarding adoption of a resolution approving MidPen Housing Corporation’s recapitalization and renovation plans for the Greenridge and Willow Gardens affordable housing communities, designate reimbursed property tax payments for reinvestment into the project, and authorize the City Manager to execute agreements and loan documents necessary to consummate such loan and fee payments on behalf of the City of South San Francisco. (Deanna Talavera, Management Analyst II)

RECOMMENDATION

Staff recommends that City Council approve MidPen Housing Corporation’s recapitalization and renovation plans for the Greenridge and Willow Gardens affordable housing communities, designate reimbursed property tax payments for reinvestment into the project, and authorize the City Manager to execute agreements and loan documents necessary to consummate such loan and fee payments on behalf of the City of South San Francisco (City).

BACKGROUND

In 2020 MidPen Housing Corporation (MidPen) approached the City with a request to approve restructuring of the City’s debt and subordination of the City’s loans for the purpose of recapitalizing and renovating their Willow Gardens and Greenridge properties (collectively referred to as “Willow Greenridge”), which are in need of significant capital improvements and repairs. The proposed resyndication plan was brought to the City Council in Closed Session on January 22, 2020, where staff was directed to negotiate the terms of the loan and subordination agreements with MidPen Housing. Approval of the agreements today will not only extend the affordability restrictions another 55 years, but the reinvestment will provide the residents access to efficient, safe, and secure affordable housing.

Willow Gardens

In 1999, the former South San Francisco Redevelopment Agency (RDA) provided financing to assist MidPen in acquiring and assembling nine parcels over a six-year period, with a total of 36 units. The goal was to revitalize the Willow Garden neighborhood, renovate dilapidated structures, and increase the supply of affordable housing. 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 RDA. Each parcel contains a two-story four-plex apartment building. All the units are two-bedrooms. The buildings were constructed between 1968 and 1971 and consist of wood framing, painted stucco, tuck under garages and flat roofs. At the time of MidPen’s acquisition modest renovations were completed; however, unit interiors and major building systems were left largely untouched. The properties are currently in need of major repairs and have never been syndicated using low-income housing tax credits (LIHTC).

Greenridge

Greenridge is a 34-unit rental community consisting of large family apartments including two, three, and four bedroom units. MidPen originally financed and built Greenridge in 1999 using LIHTC and funding from the RDA. The property consists of one two-story common area, which is used for a leasing office and community building, and eight two-story apartment buildings. The buildings consist of conventional wood framing and

hardie siding. The property is also in need of major capital improvements to ensure the long-term health of buildings.

The overall Willow Greenridge project renovation scope focuses on major building systems like windows, siding, and roofs, as well as any new building code and accessibility requirements at both sites. Additional opportunities to reduce utility costs, lower operating expenses, and provide upgrades to resident units will be thoroughly evaluated and included as the rehab budget allows.

As described above, the Willow Greenridge buildings are in need of renovation to support their long-term sustainability. To help finance these needed renovations, MidPen proposes combining Willow Greenridge as a scattered site, LIHTC re-syndication project to accomplish several goals.

- A combined LIHTC re-syndication as one 70-unit project will generate greater tax credit equity enabling a more thorough renovation of all of the buildings.
- A combined project will provide scale to refinance the existing first mortgages and restructure the debt currently held by the City, which will enhance long-term financial sustainability.
- The recapitalization will also allow MidPen to increase funding for resident services at both properties to current best practice levels.

DISCUSSION

Staff has worked closely with MidPen to further refine the scope and design for the substantial rehabilitation work and the financial restructuring plan, including the federal LIHTC application that will generate an estimated private equity investment of \$20,372,609 million in the project. MidPen has submitted for building permits for the proposed rehabilitation work. Plan check is currently in process. Permits are expected to be ready by October 31, 2021. MidPen and the City have opted to consolidate all prior agreements and memorialize the restructuring of the four outstanding loans through one new City loan. In exchange, the Regulatory Agreement between MidPen and the City and recorded against the property that restricts affordability levels will be extended for 55 years from the date of recordation. This will regulate the project as one property, with the affordability restrictions remaining in place. If the loans are not restructured and the new 55-year restriction imposed, the existing affordability restrictions will expire in 2054 (HOME) and 2071 (Willow Gardens City Loan) and 2038 (Greenridge City Loan).

Recent Property Tax Refund

MidPen recently received a welfare tax exemption refund of \$294,217 from San Mateo County for property taxes paid at the Willow Gardens site that had been miscategorized. The refund could be directed to the City as a residual receipt payment; however, staff recommends the City Council direct MidPen to reinvest the funds into the rehabilitation project at Greenridge for the purpose of replacing all 36 water heaters, which would have otherwise been eliminated from the project scope due to cost escalation. The new efficient water heaters will use less energy than standard water heaters, which, combined with the other updates to the windows, siding, roofs and lighting will make the overall project more sustainable and efficient.

Refinancing Proposal

There are four outstanding City loans on the property with a combined outstanding principal balance of about \$5.9 million, and approximately \$2.9 million in accrued interest (see Attachment 1 for details).

The refinancing proposal consists of the following:

- New City loan of approximately \$8.8 million, with a 55-year loan term, at 1.88% interest, with annual Residual Receipts (RR) payments;
- Extend maturity dates of existing loans to 55-years, with an end date consistent with that of new City loan;
- New affordability restrictions will be placed on the property by the City ensuring its affordability to lower-income households for another 55 years (see Attachment 2 for an outline of units by affordability restrictions and Attachment 3 for the San Mateo County area median incomes for 2021); and
- Allocation of \$294,217 of the City's residual receipt payments to be reinvested into the project for the purpose of unit improvements at Greenridge.

Balances may change depending on the closing date and the amount of daily interest accrued.

Proposal Evaluation

MidPen is one of the largest developers and owners of high-quality affordable rental housing in Northern California. MidPen has collaborated with the City on many projects including Willow Gardens, Greenridge, and 636 El Camino Real. The Willow Greenridge project has experienced significant delays and spikes in building material costs due to the COVID-19 pandemic. With their financing in place, MidPen is prepared to move forward and have demonstrated their commitment to improving the existing units with submittal of building permits and securing their financing. Staff and the City Attorney's office have evaluated the loan agreements and negotiated terms that are acceptable and retain the long-term affordability of the units. Draft agreements are attached to the accompanying resolution and will be finalized prior to closing.

As a lender, the City provides some developers of affordable housing residual receipt loans, a very common type of loan in affordable housing lending. These loans provide payment terms in the form of residual receipts which have two scenarios: 1) When projects have annual positive net cash flow (i.e. income minus expense), developers pay a previously agreed-upon percentage of the net cash flow, known as a residual receipt, to the City; or 2) If residual receipts are zero or negative, no payment is required but interest accrues and developers can make a balloon payment at loan maturity. As a result, the City's former RDA Low and Moderate Income Housing Fund (Fund 241), can expect smaller surplus payments as a result of the new loan structure revising the City's cash flow percentage from 75% and 100% on the RDA loans to 50% on the new City loan. Residual receipt payments have been nominal to date. Staff has concluded that the reinvestment of anticipated residual receipt funds, in the amount of approximately \$294,217 toward the rehabilitation will provide long-term benefits such as energy efficient upgrades and health and safety improvements.

Community Outreach & Temporary Relocation

MidPen prepared a community outreach plan to engage residents in the proposed renovation plan and held meetings with the tenants in July 2021 to discuss the work and address any questions or concerns. Service providers will assist tenants with temporary relocation, to the extent necessary, and any support tenants might need during the construction period. The full relocation plan is attached for City review and approval, see Attachment 4.

FISCAL IMPACT

Approving the proposed restructuring of the City's debt and subordination of the loans for the purpose of recapitalization and renovation of the site will have no effect on the General Fund or the City's Housing Trust Fund (Fund 205). However, the City's former RDA Low and Moderate Income Housing Fund (Fund 241), can

expect smaller surplus payments as a result of the new loan structure revising the City's cash flow percentage from 75% and 100% on the RDA loans to 50% on the new City loan. In addition, the City will designate \$294,217 of expected residual receipt payments to Fund 241 back to the project for replacement of water heaters at the Greenridge development.

RELATIONSHIP TO STRATEGIC PLAN

The proposed project aligns with the goals and objectives of the City's Strategic Plan to build and maintain a sustainable City with a range of housing options for the community. The rehabilitation work will create a safer and better living environment for residents, preserve Willow Greenridge as an affordable housing resource, and extend the term of affordability for another 55 years.

CONCLUSION

Staff recommends that City Council approve MidPen Housing Corporation's recapitalization and renovation plans for the Greenridge and Willow Gardens affordable housing communities, designate reimbursed property tax payments for reinvestment into the project, and authorize the City Manager to execute agreements and loan documents necessary to consummate such loan and fee payments on behalf of the City.

ATTACHMENTS

1. Loan Amounts and Balances
2. Affordability Levels
3. SMC AMI Levels 2021
4. Relocation Plan