

APPENDIX A



CITY OF SAN MATEO
Office of the City Manager

330 W. 20th Avenue
San Mateo, CA 94403
www.cityofsanmateo.org
(650) 522-7002

July 16, 2020

Joan Rosas
Superintendent
San Mateo – Foster City School District
1170 Chess Drive
Foster City, CA 94404

RE: Compensation Agreement for the Disposition of former Redevelopment Agency properties within the City of San Mateo

Dear Ms. Rosas:

As one of the Taxing Entities of the former Redevelopment Agency of the City of San Mateo, your agency is receiving this letter to explain the City of San Mateo's intent to enter into a compensation agreement with your agency regarding the disposition of the two former Redevelopment Agency properties in Downtown San Mateo at 480 E. 4th Avenue and 400 E. 5th Avenue.

As way of background information, in 2012, the State of California enacted legislation that required the dissolution of approximately 400 Redevelopment Agencies (AB 26, AB1484). Pursuant to the Dissolution Law and the Health and Safety Code Section 34173, the Redevelopment Agency of the City of San Mateo (RDA) was dissolved and the City of San Mateo elected to serve as the Successor Agency. The Successor Agency became responsible for paying the enforceable obligations, disposing of the properties and other assets, and unwinding the affairs of the Former RDA. Accordingly, ownership of the Former RDA's Properties that had been acquired to implement the Redevelopment Plan transferred to the Successor Agency for disposition in accordance with the Redevelopment Dissolution Statutes.

Pursuant to the Dissolution Law, the Successor Agency prepared a Long Range Property Management Plan (LRPMP) to address the disposition of the former redevelopment properties and the final version was approved by the Oversight Board in September 2014, and the California Department of Finance (DOF) subsequently approved it in December 2014. The LRPMP calls for the properties at 480 East Fourth Avenue and 400 East Fifth Avenue, which are currently used as surface parking lots containing 235 public parking spaces, to be transferred by the Successor Agency to the City for future development to implement projects identified in the Redevelopment Plan. The DOF reviewed and approved the LRPMP on December 17, 2014.

The approved LRPMP states that the City will enter into a compensation agreement with the affected taxing entities prior to the City's disposition of the properties and provide for any net proceeds of sale to be distributed as property taxes to the affected taxing entities and that the purchase price to be paid for the properties will be not less than the **fair reuse value** of the properties with the covenants, conditions, and development costs authorized pursuant to a Disposition and Development Agreement, as determined by formal action of the City Council. Per the LRPMP, Oversight Board and DOF approval of the compensation agreement is not required.

In September 2017, the City issued a Request for Proposal to select a developer for the purpose of constructing housing and a public parking garage on the properties located at 480 East 4th Avenue and 400 East 5th Avenue. MidPen Housing Corporation (the "Developer"), a local non-profit affordable housing developer, was selected through the competitive process. The proposed project, which is a public-private partnership between the Developer and the City, includes the development of 225 units of multi-family rental housing for low income households on 480

East 4th Avenue and a parking garage on 400 East 5th Avenue containing roughly 696 parking spaces, including 164 spaces for exclusive use of the housing development, 235 replacement public parking spaces, and up to 297 additional public parking spaces for Downtown San Mateo. The public parking garage will be operated by the City once completed.

The residential development will provide much needed affordable housing for San Mateo County in the transit and amenity-rich environment of Downtown San Mateo. The housing will serve a range of affordable income levels with the maximum allowed income being for households earning up to 80% of Area Median Income. **Additionally, 25% of the housing units will have a preference for public employees, including employees from all the taxing entities.**

In order to achieve the maximum number of housing units, the City is allowing for a density transfer so that the housing development potential from the parking garage site is transferred to the housing site. In order to maximize the number of units, the residential parking will be located in the parking garage on a separate parcel. Furthermore, to get the maximum number of affordable housing units possible, the City is using a newly passed revision to the State Density Bonus law to obtain a 2--story increase over local height limits since it is a 100% affordable housing project adjacent to public transit.

The City and the Developer will enter into a Disposition, Development, and Loan Agreement (DDLA) to govern the development of the project. Under the terms of the DDLA, the City will ground lease 480 East 4th Avenue to the Developer for one dollar per year for a term of 99-years for the construction of the low income housing, will retain ownership of 400 East 5th Avenue, and will enter into an appurtenant easement dedicating no less than 164 spaces in the parking garage constructed on 400 East 5th Avenue, for the term of the ground lease, to the Developer for use by the housing development. The timing of the disposition of the Properties under the DDLA is at the time that the Developer obtains their building permits and closes escrow on their construction financing. Additionally, the Developer's construction and operation of the development is not financially feasible without the City's financial assistance. The DDLA will require the City to contribute \$12.5 million in direct financial assistance to the project and to waive our internal development review and plan check fees, which total roughly \$1.8 million.

The City commissioned a Reuse Appraisal of the Properties in June 2020 in accordance with California Health and Safety Code Section 33433 to estimate the fair reuse value of the Properties that are to be conveyed to the Developer. The Reuse Appraisal concluded that the reuse value of the properties is zero and that without the City's financial contribution to the project, the project would have a significant funding gap and the reuse value would be negative. Given this, there will be no net disposition proceeds from the disposition of the properties to distribute among the taxing entities. A copy of the Reuse Appraisal is included with this letter for your review.

The project is currently in the entitlements process. The staff plans to bring the entitlement application as well as the Disposition, Development, and Loan Agreement forward to our City Council for review and approval on August 17, 2020. Following this, the City hopes to enter into a compensation agreement with all of the taxing entities in order to enter into the Ground Lease with the Developer for the housing project. If the Taxing Entities do not agree to the terms of the compensation agreement, the City will be in default of our obligations and the project will not be able to move forward.

I would be happy to go over the details of this proposed project and to discuss the compensation agreement with your agency in more detail. Please feel free to reach out to me to discuss this further at (650) 522-7002 or at dcorbett@cityofsanmateo.org.

Respectfully,



Drew Corbett
City Manager

Cc: Patrick Gaffney, Chief Business Official

Attachment: Downtown San Mateo Opportunity Sites Reuse Appraisal



CITY OF SAN MATEO
Office of the City Manager

330 W. 20th Avenue
San Mateo, CA 94403
www.cityofsanmateo.org
(650) 522-7000

August 31, 2020

Joan Rosas
Superintendent
San Mateo-Foster City School District
1170 Chess Drive
Foster City, CA 94404

RE: Compensation Agreement for the disposition of former Redevelopment Agency properties within the City of San Mateo

Dear Superintendent Rosas:

The City of San Mateo sent you a letter on July 16, 2020, regarding our intent to enter into a Compensation Agreement with your agency regarding the disposition of the two former Redevelopment Agency properties in Downtown San Mateo at 480 E. 4th Avenue and 400 E. 5th Avenue. Through a public-private partnership with non-profit developer MidPen Housing, the City plans to develop 225 units of multi-family rental housing for low income households on 480 East 4th Avenue and a parking garage on 400 East 5th Avenue containing roughly 696 parking spaces. The parking garage includes 164 spaces for exclusive use of the housing development, 235 replacement public parking spaces, and up to 297 additional public parking spaces for Downtown San Mateo. **25% of the housing units will have a preference for public employees, including employees from all the taxing entities of the former Redevelopment Agency of the City of San Mateo.**

Since our initial letter, we are proud to announce that the City has approved the entitlements for the project and has entered into the Disposition, Development, and Loan Agreement (DDLA) to govern the development of the project. Under the terms of the DDLA, the City will ground lease 480 East 4th Avenue to the Developer for one dollar per year for a term of 99-years for the construction of the low income housing, will retain ownership of 400 East 5th Avenue, and will enter into an appurtenant easement dedicating no less than 164 spaces in the parking garage constructed on 400 East 5th Avenue, for the term of the ground lease, to the Developer for use by the housing development. The DDLA requires the City to contribute \$12.5 million in direct financial assistance to the project and to waive our internal development review and plan check fees, which total roughly \$1.8 million.

The next critical step in the process of completing this project is entering into the compensation agreements with the taxing entities that will allow the City to execute the Ground Lease for the project. As stated in our prior letter, the Reuse Appraisal for this project concluded that the reuse value of the properties is zero and that without the City's financial contribution to the project, the project would have a significant funding gap and the reuse value would be negative. Given this, there will be no net disposition proceeds from the disposition of the properties to distribute among the taxing entities.

Included with this letter is the Compensation Agreement that the City has drafted that will need to be executed by all of the taxing entities, including San Mateo County, San Mateo-Foster City School District, San Mateo Union High

School District, San Mateo County Office of Education, Bay Area Air Quality Management District, Peninsula Health Care District, San Mateo Harbor District, and San Mateo County Mosquito & Vector Control District. It is our expectation that this will require approval of your governing board, and we are available to assist with that process. Our goal is to have the Compensation Agreement executed by all of the taxing entities prior to the end of this calendar year.

If you have any questions about the Compensation Agreement or require support in bringing it before your Board, please reach out to our Assistant City Manager, Kathy Kleinbaum, who has served as the project manager for this development. She can be reached at (650) 522-7153 or at kkleinbaum@cityofsanmateo.org.

Respectfully,

A handwritten signature in blue ink, appearing to read "Drew Corbett", with a stylized flourish at the end.

Drew Corbett
City Manager

Enclosure: Compensation Agreement

cc: Patrick Gaffney, Chief Business Official