




COUNTY OF SAN MATEO
Inter-Departmental Correspondence

County Manager's Office

DATE: April 9, 2003

BOARD MEETING DATE: April 22, 2003

TO: Honorable Board of Supervisors

FROM: Paul T. Scannell, Assistant County Manager 

SUBJECT: Subordination Agreement to subordinate the County's security interest under the note and deed of trust from Peninsula Conflict Resolution Center ("PCRC") to new construction financing.

Recommendation

Adopt a resolution authorizing the President of the Board of Supervisors to execute a Subordination Agreement to subordinate the County's interest to new construction financing to enable PCRC to construct a new office building at 1300 El Camino Real, Belmont, California.

Background

In September 2000, in response to soaring commercial rents, the Board established the Non-Profit Agency Office Purchase Loan Program to assist qualified non-profit agencies in the acquisition of real property for agency use. Under that policy in, May 2001, the Board authorized the Agreement Between County Of San Mateo And Peninsula Conflict Resolution Center To Assist In Financing The Purchase Of Real Property. The Agreement provided for a loan from the County to PCRC in the amount of \$477,125 for the purpose of acquiring and improving 1300 El Camino Real, Belmont, CA. The County agreed to subordinate its interest to primary financing for the acquisition. At the time of acquisition, the property was improved with a 10,000 square foot office building. When the Agreement was entered, it was anticipated that the total cost of acquisition and renovation would be \$2,018,500.

Subsequent to acquisition of the property, PCRC determined that renovation of the existing structure was ill advised. That structure has been demolished, and PCRC has submitted for a building permit to construct a new 9,000 square foot building on the site. To fund the new construction, PCRC has obtained a loan commitment from Comerica Bank for approximately \$594,000, subject to subordination of the County's loan.

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Discussion

Subordinating the County's loan to the new construction loan would increase the total amount of senior liens from approximately \$1,150,000 to \$1,744,000. Total indebtedness secured by the property of approximately \$2,220,000 (including the County's loan) would be roughly equivalent to the total value of the property as improved. Whether before or after the proposed construction, the County's position would be completely eliminated by foreclosure. Subordination to the new construction loan does not improve the security of the County's position, but reduces the probability of default and foreclosure.

The Director of the Human Services Agency and the Director of Housing concur in this recommendation. County Counsel has reviewed and approved the Subordination Agreement as to form.

Vision Alignment

Approval of the Subordination Agreement keeps the commitment of responsive, effective and collaborative government and goal number 20: Government decisions are based on careful consideration of future impact, rather than temporary relief or gain. The agreement contributes to this commitment and goal by supporting the efforts of the non-profit Peninsula Conflict Resolution Center to fix its facility costs and assure its ability to continue to provide a service to the public.

Fiscal Impact

The amount to which the County's loan of \$477,125 will be subordinate will increase from approximately \$1,150,000 to approximately \$1,744,000.

Cc/enc: D. Penny Bennett, Deputy County Counsel
Cc: Maureen Borland, Director, Human Services Agency
Steve Cervantes, Director, Office of Housing
Steve Alms, Manager, Real Property Services